Woods Hole Oceanographic Institution

Consolidated Financial Statements
December 31, 2015 and 2014

Woods Hole Oceanographic Institution
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December 31, 2015 and 2014

Independent Auditor's Report

To the Board of Trustees of
Woods Hole Oceanographic Institution:

We have audited the accompanying consolidated financial statements of Woods Hole Oceanographic Institution (the "Institution"), which comprise the consolidated statement of financial position as of December 31, 2015 and the related consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Institution at December 31, 2015, 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 previously audited the Institution's statement of financial position as of December 31, 2014 and the related statement of activities, and cash flows for the year then ended (not presented herein), and in our report dated July 16, 2015, we expressed an unmodified audit opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of December 31, 2014 and for the year then ended is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

July 15, 2016

Woods Hole Oceanographic Institution
Consolidated Statements of Financial Position
December 31, 2015
(with summarized financial information as of December 31, 2014)

	2015	2014
Assets		
Cash and cash equivalents, unrestricted	$ 6,038,731	$ 11,010,279
Cash and cash equivalents, restricted	16,302,300	18,523,887
Reimbursable costs and fees		
Billed (net of allowance for doubtful accounts of $108,010 for 2015 and $82,991 for 2014)	9,290,356	5,321,049
Unbilled	12,747,807	13,888,409
Receivable for investments sold	16,631,447	27,966,317
Other receivables	805,719	1,056,749
Pledges receivable, net (Note 5)	2,779,755	2,938,692
Contributions receivable from remainder trust (Note 6)	12,633,553	-
Inventory	1,816,698	2,733,210
Deferred charges and prepaid expenses	829,138	458,285
Investments, pooled (Note 3)	391,580,268	395,955,579
Investments designated for retiree and active medical plans (Note 10)	13,213,734	14,554,766
Deferred fixed rate variance (Note 7)	173,255	-
Supplemental retirement	9,813,339	9,922,383
Other assets	1,191,024	2,336,103
	495,847,124	506,665,708
Property, plant and equipment		
Land, buildings and improvements	168,900,891	164,821,690
Vessels and dock facilities	10,037,076	9,222,053
Laboratory and other equipment	35,893,824	36,896,147
Construction in process	2,528,171	353,514
	217,359,962	211,293,404
Accumulated depreciation	(132,616,542)	(126,297,946)
Net property, plant and equipment	84,743,420	84,995,458
Contributions receivable from remainder trusts, net (Note 6)	739,566	10,990,101
Total assets	$ 581,330,110	$ 602,651,267
Liabilities		
Line of credit (Note 8)	$ 16,000,000	$ 25,000,000
Accounts payable and other liabilities (Note 8)	19,365,779	20,271,905
Accrued payroll and related liabilities	6,487,693	8,916,207
Accrued supplemental retirement benefits (Note 9)	9,813,339	9,922,383
Accrued pension liability (Note 9)	103,070,812	112,537,666
Accrued postretirement liability (Note 10)	32,130,896	38,692,629
Deferred fixed rate variances (Note 7)	-	980,996
Deferred revenue and refundable advances	17,541,969	21,163,371
Bonds payable (Note 8)	54,079,559	55,757,959
Total liabilities	$ 258,490,047	$ 293,243,116

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015	2014
Net assets					
Undesignated and plant	$ 6,651,112	$ -	$ -	$ 6,651,112	$ (7,559,076)
Pension and postretirement benefits	(121,987,974)	-	-	(121,987,974)	(136,675,529)
Designated	1,878,689	10,237,012	-	12,115,701	11,569,663
Pledges and other	-	3,775,124	11,182,259	14,957,383	15,116,320
Education	-	2,892,126	-	2,892,126	3,034,877
Endowment and similar funds	81,675,960	242,405,125	84,130,630	408,211,715	423,921,896
Total net assets	$ (31,782,213)	$ 259,309,387	$ 95,312,889	$ 322,840,063	$ 309,408,151
Total liabilities and net assets				$ 581,330,110	$ 602,651,267

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

Woods Hole Oceanographic Institution
Consolidated Statements of Activities
Year Ended December 31, 2015
(with summarized financial information for the Year Ended December 31, 2014)

	Unrestricted					
	Operating	Sponsored Research	Temporarily Restricted	Permanently Restricted	2015	2014
Revenues						
Fees	$ 1,711,137	$ -	$ -	$ -	$ 1,711,137	$ 1,306,522
Sponsored research						
Government		85,535,018			85,535,018	96,194,654
Subcontract and nongovernment		87,441,910	6,343,584		93,785,494	84,854,529
Ships and subs operations		24,629,525			24,629,525	29,974,693
Sponsored research assets released to operations	203,269,655	(197,606,453)	(5,663,202)		-	-
Fixed price awards income	614,965				614,965	417,919
Education						
Joint program income	4,726,795				4,726,795	4,013,139
Endowment income			7,663,548		7,663,548	7,169,376
Education funds released from restriction	8,321,276		(8,321,276)		-	-
Investment return designated for current operations	3,958,868				3,958,868	4,136,570
Contributions and gifts	9,602,366		626,231	3,395,638	13,624,235	9,066,260
Releases from restrictions	-		(438,718)	-	(438,718)	(777,303)
Contributions in kind	544,478				544,478	289,474
Rental income	550,628				550,628	549,788
Communication and publications	199,906				199,906	165,554
Other					-	559,661
Charter Income	978,155				978,155	-
Gain on sale of property	1,438,716				1,438,716	807,808
Total revenues	235,916,945	-	210,167	3,395,638	239,522,750	238,728,644
Expenses						
Sponsored research						
Government	85,535,018				85,535,018	96,194,654
Subcontracts and nongovernment	93,105,112				93,105,112	85,076,436
Ships and subs operations	24,629,525				24,629,525	29,974,693
Education	11,313,701				11,313,701	10,989,228
Rental expenses	266,104				266,104	401,657
Communication, Publications and Development	3,316,756				3,316,756	3,172,734
Unsponsored programs	13,259,018				13,259,018	10,250,639
Other expenses	798,309				798,309	1,535,651
Total expenses	232,223,543	-	-	-	232,223,543	237,595,692
Change in net assets from operating activities	3,693,402	-	210,167	3,395,638	7,299,207	1,132,952
Nonoperating revenue and expenses						
Investment return in excess (less than) of amounts designated for sponsored research, education and current operations	98,253		(9,267,042)		(9,168,789)	22,100,101
Return on investments for retiree and active medical plans	(441,032)				(441,032)	1,737,426
Net realized/unrealized (losses) gains on interest rate swap	(1,347,626)				(1,347,626)	(3,929,745)
Change in split interest agreements	3,902		369,923	2,057,709	2,431,534	20,366
Other nonoperating expenses	(111,909)				(111,909)	(108,804)
Net periodic benefit cost	(8,318,071)				(8,318,071)	71,927
Pension and post-retirement related changes other than net periodic benefit costs (Note 9)	23,088,598				23,088,598	(55,160,542)
Change in net assets from nonoperating activities	12,972,115	-	(8,897,119)	2,057,709	6,132,705	(35,269,271)
Total change in net assets	16,665,517	-	(8,686,952)	5,453,347	13,431,912	(34,136,319)
Net assets at beginning of year	(48,447,730)	-	267,996,339	89,859,542	309,408,151	343,544,470
Net assets at end of year	$ (31,782,213)	$ -	$ 259,309,387	$ 95,312,889	$ 322,840,063	$ 309,408,151

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

Woods Hole Oceanographic Institution
Consolidated Statements of Cash Flows
Year Ended December 31, 2015
(with summarized financial information for the Year Ended December 31, 2014)

	2015	2014
Cash flows from operating activities		
Total change in net assets	$ 13,431,912	$ (34,136,319)
Adjustments to reconcile increase (decrease) in net assets		
to net cash used in operating activities		
Depreciation and amortization	9,435,278	9,806,692
Change in split interest agreements	(2,431,534)	(20,366)
Allowance for uncollectible pledges	(25,000)	99,300
Discount on pledges	(151,971)	58,355
Net realized and unrealized gain on investments	(11,260,799)	(40,368,386)
Unrealized loss (gain) loss on interest swap	(295,143)	2,221,689
Pension related changes other than net periodic pension costs	(23,088,598)	55,160,542
Contributions to be used for long-term investment	(3,191,110)	(2,757,354)
Gift of property	-	(500,000)
Gain on sale of property	(1,438,716)	(807,808)
Receipt of contributed securities	(60,951)	(195,372)
Liquidation of contributed securities	60,951	325,116
(Increase) decrease in assets		
Restricted cash	2,221,587	(2,524,712)
Reimbursable costs and fees		
Billed	(3,969,307)	(1,349,545)
Unbilled	1,140,602	(5,270,870)
Other receivables	251,030	282,536
Pledges receivable	335,908	(1,414,817)
Charitable remainder trust receivable	(12,633,553)	-
Inventory	916,512	(269,973)
Deferred charges and prepaid expenses	(370,853)	732,242
Other assets	68,795	409,598
Remainder trusts	10,250,535	(4,841)
Supplemental retirement	109,044	(631,961)
Deferred fixed rate variance	(173,255)	1,772,893
Increase (decrease) in liabilities		
Accrued pension and postretirement liability	7,060,011	(1,019,750)
Accounts payable and other liabilities	2,017,591	3,012,790
Accrued payroll and related liabilities	(2,428,514)	116,021
Deferred revenue and refundable advances	(3,621,402)	1,752,579
Deferred fixed rate variances	(980,996)	980,996
Accrued supplemental retirement benefits	(109,044)	631,961
Deferred financing costs	10,529	10,530
Net cash used in operating activities	(18,920,461)	(13,898,234)
Cash flows from investing activities		
Capital expenditures		
Additions to property and equipment	(9,380,280)	(7,141,120)
Endowment and other		
Purchase of investments	(20,348,918)	(80,393,496)
Sale of investments	36,426,060	104,767,527
Receivable for investments sold	11,334,870	(757,273)
Proceeds from the sale of investments designated for retiree and active medical plans	900,000	947,823
Proceeds from sale of property	2,515,000	2,345,000
Net cash provided by investing activities	21,446,732	19,768,461
Cash flows from financing activities		
Repayments under debt agreement	(1,688,929)	(1,618,929)
Borrowing under line of credit	41,034,341	27,000,000
Repayments under line of credit	(50,034,341)	(27,000,000)
Contributions to be used for long-term investment	3,191,110	2,757,354
Net cash (used in) provided by financing activities	(7,497,819)	1,138,425
Net (decrease) increase in cash and cash equivalents	(4,971,548)	7,008,652
Cash and cash equivalents		
Beginning of year	11,010,279	4,001,627
End of year	$ 6,038,731	$ 11,010,279
Supplemental disclosures		
Cash paid for interest	$ 4,813,584	$ 5,125,209
Noncash activity		
Construction in process additions remaining in accounts payable	677,641	874,681
Contributed securities	60,951	195,372
Contributed property	-	500,000

The accompanying notes are an integral part of these consolidated 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, 2014, from which the summarized information was derived.

The accompanying consolidated financial statements include the accounts of the Institution and WHOI Investment Holdings, LP as of and for the year ended December 31, 2015. Intercompany balances and transactions are eliminated in consolidation.

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. Contributed securities are sold immediately upon receipt. 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 collectability.

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, charter income, 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 (less than) 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 and forward, 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 when these expenses are funded by withdrawals from the postretirement plan (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, 2015 and 2014 is $16,045,487 and $18,268,306, 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, 2015 and 2014 is $256,813 and $255,581, 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, 2015 and 2014 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 generally accepted accounting principles 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 $17,966,000 and $17,209,000 for the years ended December 31, 2015 and 2014, 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 88% and 84% of its sponsored research revenues from government agencies including 27% and 30% of its operating revenues directly from the National Science Foundation and 12% and 10% from the United States Navy in fiscal years 2015 and 2014, 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 $9,323,369 and $9,694,783 in 2015 and 2014, respectively, has been charged to operating activities. Depreciation on certain government-funded facilities (the Laboratory for Marine Science and the dock facility) amounting to $111,909 in 2015 and 2014 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, 2015 through July 15, 2016, 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.

New Accounting Pronouncements

The Institution has adopted ASU 2015-03 Interest – Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs issued April 2015. The amendments in this update require deferred financing costs previously presented as a deferred charge in the Statements of Position to be now presented as a reduction from the face amount of the bond payable to which these costs relate. These amounts totaled $173,125 and $183,654 at December 31, 2015 and 2014 respectively.

ASU 2015-07, Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), was issued in May 2015. The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments in this Update are effective for the Institution for the fiscal year ending December 31, 2016. Early adoption is permitted; the Institution has not adopted this Update for the year ended December 31, 2015.

In May of 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers;* a principals-based standard to recognize revenue from customer contracts. ASU 2014-09 is effective for the Institution's fiscal year ending December 31, 2018. The Institution is evaluating the impact that the ASU may have on its consolidated financial statements.

3. Investments

The Institution has 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 "Multi-strategy 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 invests in two separate sub-funds within the Multi-strategy investment fund. One sub-fund allows for annual withdrawals while the other allows for monthly withdrawals. Due to prevailing redemption restrictions not all of the legacy managers were liquidated as of 2014.

Beginning January 1, 2015, the Institution's endowment investment services provider established a single investor fund, (with the Institution as the sole investor) WHOI Investment Holdings, LP, comprising of the currently managed Multi-strategy funds and the transfer of the remaining legacy endowment private investments which had been managed separately. The transfers of the Institution's investments into the sole investor fund was completed during 2015. Capital calls, distributions and reporting related to the previously separately managed legacy portfolio will be managed by the Institution's investment service provider. WHOI Investment Holdings, LP continues to hold the same two separate sub-funds within the Multi-strategy investment fund as described above which now also include the newly transferred legacy private investments.

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

	2015		2014	
	Cost	**Market**	**Cost**	**Market**
Assets				
Cash and cash equivalents	$ 2,885,814	$ 2,885,814	$ 5,151,168	$ 5,151,168
Private equity, venture capital and other limited partnerships	30,554,959	35,779,462	36,380,814	45,680,633
Multi-strategy investment funds	259,365,956	352,914,992	262,371,956	345,123,778
Total investments pooled	292,806,729	391,580,268	303,903,938	395,955,579
Investments designated for retiree and active medical plans				
Commingled funds	11,872,702	13,213,734	12,661,858	14,554,766
Total investments designated for retiree and active medical plans	11,872,702	13,213,734	12,661,858	14,554,766
Total assets at fair value	$ 304,679,431	$ 404,794,002	$ 316,565,796	$ 410,510,345

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

	Unrestricted	**Temporarily Restricted**	**2015 Total**	**2014 Total**
Dividend interest and other income	$ 43,823	$ 240,351	$ 284,174	$ 1,569,959
Investment management costs	(471,831)	(2,587,824)	(3,059,655)	(3,171,818)
Net realized gains	767,958	4,211,975	4,979,933	4,550,669
Change in unrealized appreciation	3,717,171	2,875,588	6,592,759	36,360,291
Total return on investments	4,057,121	4,740,090	8,797,211	39,309,101
Investment return designated for				
Sponsored research	-	(6,343,584)	(6,343,584)	(5,903,054)
Education	-	(7,663,548)	(7,663,548)	(7,169,376)
Current operations	(3,958,868)	-	(3,958,868)	(4,136,570)
Total distributed to operations	(3,958,868)	(14,007,132)	(17,966,000)	(17,209,000)
Investment return in excess of amounts designated for sponsored research, education and current operations	$ 98,253	$ (9,267,042)	$ (9,168,789)	$ 22,100,101

Realized and unrealized gains attributable to Investments designated for retiree and active medical plans were $(441,032) and $1,737,426 for the years ended December 31, 2015 and 2014, respectively.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the market values and the amounts reported in the statement of financial position.

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, 2015 and December 31, 2014 for financial assets measured at fair value:

	2015			
	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	$ 2,885,814	$ -	$ -	$ 2,885,814
Private equity, venture capital and other limited partnerships	-	-	35,779,462	35,779,462
Multi strategy	-	24,861,099	328,053,053	352,914,152
Total pooled	2,885,814	24,861,099	363,832,515	391,579,428
Contributions receivable from remainder trust	-	12,633,553	739,566	13,373,119
Other assets	-		591,022	591,022
Investments designated for retiree and active medical plans	-	13,213,734	-	13,213,734
Total assets at fair value	$ 2,885,814	$ 50,708,386	$ 365,163,103	$ 418,757,303
Interest rate swap	$ -	$ 9,451,835	$ -	$ 9,451,835
Total liabilities at fair value	$ -	$ 9,451,835	$ -	$ 9,451,835

	2014			
	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	$ 5,151,168	$ -	$ -	$ 5,151,168
Private equity, venture capital and other limited partnerships	-	-	45,680,633	45,680,633
Multi-strategy investment funds	-	11,225,625	333,898,153	345,123,778
Total pooled	5,151,168	11,225,625	379,578,786	395,955,579
Contributions receivable from remainder trust	-	-	10,990,101	10,990,101
Other assets	-	-	658,101	658,101
Investments designated for retiree and active medical plans				
Commingled funds	-	14,554,766	-	14,554,766
Total investments designated for retiree and active medical plans	-	14,554,766	-	14,554,766
Total assets at fair value	$ 5,151,168	$ 25,780,391	$ 391,226,988	$ 422,158,547
Interest rate swap	$ -	$ 9,746,978	$ -	$ 9,746,978
Total liabilities at fair value	$ -	$ 9,746,978	$ -	$ 9,746,978

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, 2015.

The following table presents the assets and liability carried at fair value as of December 31, 2015 and December 31, 2014 that are classified within Level 3 of the fair value hierarchy defined above:

	2015 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)								
	Balance, December 31, 2014	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Return of Capital	Transfers	Transfers in and/or Out of Level 3	Balance, December 31, 2015
Private equity, Venture capital and other limited partnerships	$ 45,680,633	$ 4,976,055	$ (3,919,228)	$ 861,398	$ (9,913,019)	$ (1,906,377)	$ -	$ -	$ 35,779,462
Multi-strategy investment funds	333,898,153	-	10,785,900		(16,631,000)	-	-	-	328,053,053
Contributions receivable from remainder trust	10,990,101	-	2,383,018	-	-	-	-	(12,633,553)	739,566
Other assets	658,101	-	(67,079)	-	-	-	-	-	591,022
	$ 391,226,988	$ 4,976,055	$ 9,182,611	$ 861,398	$ (26,544,019)	$ (1,906,377)	$ -	$ (12,633,553)	$ 365,163,103

	2014 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Balance, December 31, 2013	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Return of Capital	Transfers in and/or Out of Level 3	Balance, December 31, 2014
Private equity, Venture capital and other limited partnerships	$ 48,522,143	$ 4,550,669	$ 1,619,897	$ 2,762,396	$ (5,460,074)	$ (6,314,398)	$ -	$ 45,680,633
Multi-strategy investment funds	317,475,095	-	32,389,375	12,000,000	(27,966,317)	-	-	333,898,153
Contributions receivable from remainder trust	10,985,260	-	4,841	-	-	-	-	10,990,101
Other assets	937,907	-	(279,806)	-	-		-	658,101
	$ 377,920,405	$ 4,550,669	$ 33,734,307	$ 14,762,396	$ (33,426,391)	$ (6,314,398)	$ -	$ 391,226,988

Net cumulative unrealized gains related to the Level 3 investments totaled $72,571,535 and $65,860,950 as of December 31, 2015 and 2014, 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, (See note 6).

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, 2015.

Assets	Fair Value	Redemption Terms	Redemption Restrictions
Private equity, venture capital and other limited partnerships	$ 35,779,462	Remaining lives up to 9 years	$35,779,462 designated as illiquid
Multi-strategy investment funds	352,914,992	Annual (year end), included is $24,861,099 with monthly redemption terms	
Total investments	$ 388,694,454		

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, 2014.

Assets	Fair Value	Redemption Terms	Redemption Restrictions
Private equity, venture capital and other limited partnerships	$ 45,680,633	Remaining lives up to 10 years	$45,680,633 designated as illiquid
Multi-strategy investment funds	345,123,778	Annual (year end), included is $11,225,625 with monthly redemption terms	
Total investments	$ 390,804,411		

The Institution had unfunded commitments relating to endowment assets of approximately $5,454,698 and $6,445,747 relating to private equity, venture capital and other limited partnerships as of December 31, 2015 and 2014, 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 2.81% at December 31, 2105. At December 31, 2014, discount rates ranged from 2.57% to 2.72%.

Pledges receivable consist of the following at December 31:

	2015	2014
Unconditional promises expected to be collected in		
Less than one year	$ 868,200	$ 840,065
One year to five years	2,257,957	2,622,000
Reserve for uncollectible pledges receivable	(217,300)	(242,300)
Unamortized discount	(129,102)	(281,073)
	$ 2,779,755	$ 2,938,692

6. Contribution Receivable from Remainder Trusts, Net and Charitable Remainder Trust Receivable

Contributions receivable from remainder trusts at December 31, 2015 and 2014 were $13,373,119 and $10,990,101, respectively. At December 31, 2015, $12,633,553 related to a single charitable remainder trust was available for distribution during 2016. During February 2016, $10,000,000 of this remainder trust was paid to the Institution. The remainder, net of final expenses, will be scheduled for distribution upon final dissolution of the trust. The fair value of this receivable has been transferred out of Level 3 to Level 2 in Note 4.

The receivable and related revenue are 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, 2015 and 2014, discount rates ranging from 4.72% to 6.0% 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, 2013	$ 1,772,893
2014 indirect costs	85,871,654
Amounts recovered	(88,625,543)
2014 change	(2,753,889)
Deferred fixed rate variance liability at December 31, 2014	(980,996)
2015 indirect costs	89,092,378
Amounts recovered	(87,931,458)
Adjustment	(6,669)
2015 change	1,154,251
Deferred fixed rate variance asset at December 31, 2015	$ 173,255

As of December 31, 2015, the Institution has expended a cumulative amount more than recovered amounts of $173,255 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, 2015 and 2014 includes bonds issued through MassDevelopment. Balances of outstanding bonds payable at December 31 consist of the following:

	2015	**2014**
MassDevelopment, Series B, Fixed Rate Revenue Bonds	$ 54,920,000	$ 56,645,000
Less: Series B unamortized bond discount	(667,316)	(703,387)
Deferred financing costs	(173,125)	(183,654)
Bonds Payable	$ 54,079,559	$ 55,757,959

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 $59,941,394 at December 31, 2015 (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 June 30, 2016. The second line of credit, with a maximum capacity of $15,000,000, bears interest at the prevailing LIBOR rate plus .75% per annum and expires September 29, 2016. The agreement requires the loan to be repaid in full for a minimum of thirty consecutive days annually. The Institution had outstanding borrowing on lines of credit of $16,000,000 and $25,000,000 at December 31, 2015 and 2014, respectively.

The aggregate maturities due on the Series B long-term debt at December 31, 2015 are as follows:

Fiscal Year	**Principal Amount**
2016	$ 1,790,000
2017	1,865,000
2018	1,960,000
2019	2,065,000
2020	2,160,000
Thereafter	45,080,000
	$ 54,920,000

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 $45,725,000. Interest expense in association with the swap agreement totaled $1,642,769 and $1,708,056 which is reflected as part of the net realized/unrealized losses on interest rate swap at December 31, 2015 and 2014, respectively.

The fair value of the interest rate swap at December 31, 2015 and 2014 is as follows:

	Fair Value	
	2015	**2014**
Statement of financial position location		
Accounts payable and other liabilities	$ 9,451,835	$ 9,746,978

The effect of the interest rate swap on the statement of activities for 2015 and 2014 is as follows:

	Amount of Loss Recognized in Statement of Activities	
	2015	**2014**
Location of loss recognized in statement of activities		
Nonoperating income and expenses		
Net realized/unrealized gain (loss) on interest rate swap	$ (1,347,626)	$ (3,929,745)

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.

The Institution sponsors a 403(b) Defined Contribution Plan (DC Plan). Contributions for the defined contribution plan totaled $7,401,301 and $7,725,611 for the years ended December 31, 2015 and 2014, 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.

	Qualified Plan Pension Benefits	
	2015	**2014**
Change in benefit obligation		
Benefit obligation at beginning of year	$ 297,693,957	$ 248,961,415
Interest cost	12,347,039	12,438,652
Actuarial (gain) loss	(19,181,299)	54,199,012
Benefits paid	(7,470,659)	(7,145,024)
Settlements	(7,060,702)	(11,179,881)
Transfers from other plans	487,783	419,783
Benefit obligation at end of year	276,816,119	297,693,957
Change in plan assets		
Fair value of plan assets at beginning of year	185,156,291	182,458,328
Employer contributions	5,305,000	6,166,666
Actual return on plan assets	(2,672,406)	14,436,419
Benefits paid	(7,470,659)	(7,145,024)
Settlements	(7,060,702)	(11,179,881)
Transfers from other plans	487,783	419,783
Fair value of plan assets at end of year	173,745,307	185,156,291
Funded status	$ (103,070,812)	$ (112,537,666)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ 103,070,812	$ 112,537,666
Net amount recognized	$ 103,070,812	$ 112,537,666
Amounts recognized in unrestricted net assets		
Net actuarial loss	$ 62,278,242	$ 78,373,362
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 276,819,119	$ 297,693,957
Accumulated benefit obligation	267,141,886	285,757,087
Components of net periodic benefit cost		
Service cost	$ -	$ -
Interest cost	12,347,039	12,438,652
Expected return on plan assets	(9,974,057)	(10,963,395)
Recognized actuarial loss	8,460,044	3,113,949
Net periodic benefit cost	$ 10,833,026	$ 4,589,206
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
Amortization of actuarial loss	$ (8,460,044)	$ (3,113,949)
Net actuarial (gain) loss	(6,534,836)	50,725,988
Total recognized in nonoperating revenues and expenses	$ (14,994,880)	$ 47,612,039

Included in amounts recognized in unrestricted net assets for 2015 and 2014, respectively, was an actuarial gain of approximately $4,400,000 and actuarial loss of approximately $15,900,000 relating to changes in the mortality tables.

The Institution has reflected $5,305,000 and $6,166,666 for the years ended December 31, 2015 and 2014, respectively, in the operating section of the statement of activities which represents employer contributions reimbursed through the employee benefit fixed rate as negotiated with the United States Government. Any difference between the employer contributions and the net periodic benefit cost is recorded in the nonoperating section of the statement of activities. This difference amounted to $5,528,026 and $1,577,460 for the years ended December 31, 2015 and 2014, respectively.

	Qualified Plan Pension Benefits	
	2015	**2014**
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	4.70 %	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 %	5.20 %
Expected long-term rate of return on plan assets	6.50 %	7.00 %
Rate of compensation increase	3.50 %	3.50 %

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 6.5% and 7.00% assumption as of December 31, 2015 and 2014, 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.

The Institution has 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	$ 6,091,603

Fair Value Disclosures

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

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 6,582,966	$ -	$ -	$ 6,582,966
Private equity, venture capital and other limited partnerships	-	-	17,484,675	17,484,675
Commingled funds	-	46,272,628	9,605,945	55,878,573
Hedge funds	-	16,323,135	50,483,996	66,807,131
Mutual funds	12,140,366	-	-	12,140,366
Domestic fixed income	14,860,179	-	-	14,860,179
Total assets at fair value	$ 33,583,511	$ 62,595,763	$ 77,574,616	$ 173,753,890

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 3,704,068	$ -	$ -	$ 3,704,068
Private equity, venture capital and other limited partnerships	-	-	18,462,806	18,462,806
Commingled funds	-	43,430,183	9,234,702	52,664,885
Hedge funds	-	20,310,428	57,574,004	77,884,432
Mutual funds	17,126,654	-	-	17,126,654
Domestic fixed income	15,487,282	-	-	15,487,282
Total assets at fair value	$ 36,318,004	$ 63,740,611	$ 85,271,512	$ 185,330,127

Included in plan assets are net investment related payables of $8,583 and $173,836 as of December 31, 2015 and 2014 respectively

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**	**Commingled Funds**	**Total**
Balances at January 1, 2015	$ 18,462,806	$ 57,574,004	$ 9,234,702	$ 85,271,512
Realized gains/losses	495,983	255,778	-	751,761
Unrealized gains/losses	(903,377)	(1,956,718)	371,243	(2,488,852)
Purchases	2,839,056	11,518,269	-	14,357,325
Sales	(3,409,793)	(16,907,337)	-	(20,317,130)
Balances at December 31, 2015	$ 17,484,675	$ 50,483,996	$ 9,605,945	$ 77,574,616

	Private Equity, Venture Capital and Other Limited Partnerships	Hedge Funds	Commingled Funds	Total
Balances at January 1, 2014	$ 19,596,440	$ 56,205,359	$ 7,624,238	$ 83,426,037
Realized gains/losses	378,736	1,188,287	-	1,567,023
Unrealized gains/losses	419,556	(1,509,926)	610,464	(479,906)
Purchases	982,370	22,235,505	1,000,000	24,217,875
Sales	(2,914,296)	(20,545,221)	-	(23,459,517)
Balances at December 31, 2014	$ 18,462,806	$ 57,574,004	$ 9,234,702	$ 85,271,512

There were no transfers between Level 1 and Level 2 investments for the years ended December 31, 2015 and 2014. Transfers in and out of Level 3 are driven by events and circumstances affecting terms, conditions, restrictions, and redemption policies of the underlying investments. There were no such transfers in 2015 or 2014.

Cumulative unrealized gains/(losses) related to the Level 3 investments totaled $8,760,102 and $11,248,830 for the years ended December 31, 2015 and 2014, respectively.

Expected Contributions

The Institution anticipates contributing $6,000,000 to the Qualified Plan in 2016.

Estimated Future Benefit Payments

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

Years	Benefit Payments
2016	$ 19,036,119
2017	20,702,677
2018	18,771,955
2019	18,798,093
2020	18,593,624
2021–2025	86,427,145

	Supplemental Plan Pension Benefits 2015	Supplemental Plan Pension Benefits 2014
Change in benefit obligation		
Benefit obligation at beginning of year	$ 132,791	$ 204,049
Service cost	-	-
Interest cost	4,005	8,529
Actuarial (gain) loss	(12,813)	432
Benefits paid	(80,219)	(80,219)
Benefit obligation at end of year	43,764	132,791
Change in obligation for nonreturnable funding		
Obligation at beginning of year	9,789,592	9,086,373
Service cost	-	-
Interest cost	(4,005)	(8,529)
Actuarial gain (loss)	12,813	(432)
Investment return	(28,825)	712,180
Other obligation at end of year	9,769,575	9,789,592
Total obligation at end of year	$ 9,813,339	$ 9,922,383

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. Trust assets are invested in Money Market, Bond and S&P 500 Index Funds. These assets are Level I investments.

	2015	2014
Change in nonreturnable funding "Rabbi" Trust		
Nonreturnable funding at beginning of year	$ 9,922,383	$ 9,290,422
Investment return	(28,825)	712,180
Benefits paid	(80,219)	(80,219)
Nonreturnable funding "Rabbi" Trust at end of year	$ 9,813,339	$ 9,922,383

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

	Supplemental Plan Pension Benefits	
	2015	**2014**
Actual return on earmarked reserves	$ (28,825)	$ 712,180
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	4.7 %	4.3 %
Rate of compensation increase	3.5 %	3.5 %
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	4.3 %	5.2 %
Expected long-term rate of return on plan assets	6.5 %	7.0 %
Rate of compensation increase	3.5 %	3.5 %

Expected Contributions

The Institution anticipates contributing $0 to the Supplemental Plan in 2016.

Estimated Future Benefit Payments

Amortization of net prior service cost	$ (625,446)
Amortization of net loss (gain)	-

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. Actual returns from investments designated for retiree and active medical plans totaled $441,032 and $1,811,722 for the years ended December 31, 2015 and 2014, respectively, and are presented in the nonoperating section of the Statement of Activities, net of administrative fees of $92,901 and $74,296 for 2015 and 2014, respectively. Health care benefits for active employees funded from these investments totaled $0 for the years ended December 31, 2015 and 2014, respectively, and would also presented under the nonoperating section of the Statement of Activities.

	Other Postretirement Benefits	
	2015	**2014**
Change in benefit obligation		
Benefit obligation at beginning of year	$ 38,692,629	$ 30,586,416
Adjustment to reflect change from plan amendment	-	-
Service cost	673,974	440,447
Interest cost	1,633,335	1,392,174
Benefits paid, net of participant contributions	(1,258,060)	(947,823)
Actuarial (gain) loss	(7,610,982)	7,221,415
Benefit obligation at end of year	32,130,896	38,692,629
Change in plan assets		
Fair value of plan assets at beginning of year	-	-
Adjustment to reflect change from plan amendment	-	-
Employer contributions	1,258,060	947,823
Actual return on plan assets	-	-
Benefits paid, net of participant contributions	(1,258,060)	(947,823)
Fair value of plan assets at end of year	-	-
Funded status	$ (32,130,896)	$ (38,692,629)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ 32,130,896	$ 38,692,629
Net amount recognized	$ 32,130,896	$ 38,692,629
Components of net periodic benefit cost		
Service cost	$ 673,974	$ 440,447
Interest cost	1,633,335	1,392,174
Expected return on plan assets	-	-
Amortization of prior service credit	(819,094)	(839,846)
Amortization of net loss	1,301,830	512,758
Net periodic benefit cost	$ 2,790,045	$ 1,505,533
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
Amortization of prior service credit	$ 819,094	$ 839,846
Amortization of actuarial loss	(1,301,830)	(512,758)
Net actuarial (gain) loss	(7,610,982)	7,221,415
Total recognized in nonoperating expense	$ (8,093,718)	$ 7,548,503

The Institution recognizes the net periodic benefit cost in the nonoperating section of the statement of activities. This amounted to $(2,790,045) and ($1,505,533) for the years ended December 31, 2015 and 2014, respectively.

	2015	2014
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	4.7 %	4.3 %
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	4.3 %	5.2 %
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.

	2015		2014	
	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	7.5 %	5.5 %	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	2023	2018	2020	2018

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:

	2015		2014	
	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	$ 557,550	$ (419,243)	$ 339,568	$ (267,464)
Effect on year-end postretirement benefit obligation	5,361,825	(4,260,093)	7,507,999	(5,856,373)

Plan Assets

Due to the change in the Trust agreement, there were no plan assets at December 31, 2015 and 2014.

Expected amounts amortized from unrestricted net assets into net periodic pension cost for the next fiscal year	
Amortization of net prior service cost	$ (813,577)
Amortization of net loss	593,256

Expected Contributions
The Institution anticipates contributing $0 to the Retiree Medical Plan in 2016.

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

Years	Benefit Payments
2016	$ 1,297,901
2017	1,397,603
2018	1,468,139
2019	1,497,676
2020	1,559,844
2021–2025	8,600,614

11. Endowment

The Institution's endowment consists of 149 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:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 242,405,125	$ 84,130,630	$ 326,535,755
Board designated funds	81,675,960	-	-	81,675,960
Total funds	$ 81,675,960	$ 242,405,125	$ 84,130,630	$ 408,211,715

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 251,279,093	$ 78,878,961	$ 330,158,054
Board designated funds	93,763,842	-	-	93,763,842
Total funds	$ 93,763,842	$ 251,279,093	$ 78,878,961	$ 423,921,896

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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets beginning of year	$ 93,763,842	$ 251,279,093	$ 78,878,961	423,921,896
Investment return				
Investment income, net of fees	(428,008)	(2,347,473)	-	(2,775,481)
Net appreciation	4,485,129	7,087,563	-	11,572,692
Total investment return	4,057,121	4,740,090	-	8,797,211
New gifts	10,000	23,151	3,193,960	3,227,111
Appropriation of endowment assets for expenditure under spending policy	(3,958,868)	(14,007,132)	-	(17,966,000)
Additional appropriations, net	(12,200,037)	-	-	(12,200,037)
Change in split interest agreements	3,902	369,923	2,057,709	2,431,534
Net assets end of year	$ 81,675,960	$ 242,405,125	$ 84,130,630	$ 408,211,715

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets beginning of year	$ 99,044,772	$ 233,860,217	$ 76,132,449	$ 409,037,438
Investment return				
Investment income, net of fees	(325,396)	(1,276,463)	-	(1,601,859)
Net appreciation	9,129,609	31,781,351	-	40,910,960
Total investment return	8,804,213	30,504,888	-	39,309,101
New gifts	-	7,429	2,757,354	2,764,783
Appropriation of endowment assets for expenditure	(4,136,570)	(13,072,430)	-	(17,209,000)
Additional appropriations, net	(10,000,792)	-	-	(10,000,792)
Change in split interest agreements	52,219	(21,011)	(10,842)	20,366
Net assets end of year	$ 93,763,842	$ 251,279,093	$ 78,878,961	$ 423,921,896

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 2011 with no findings or adjustments for unallowable costs. 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 years ended December 31, 2007 through 2011 on April 2, 2015. The years 2012 through 2015 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 $277,562 and $442,874 for the years ended December 31, 2015 and 2014, 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 $1,445,702 and $1,415,740 for the years ended December 31, 2015 and 2014, respectively.

The Institution has loans due from various employees for education advances and computer purchases. The amounts outstanding are $673,570 and $853,057 at December 31, 2015 and 2014, respectively.