Woods Hole Oceanographic Institution

Financial Statements
December 31, 2008

Woods Hole Oceanographic Institution
Index
December 31, 2008

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Report of Independent Auditors

To the Board of Trustees of
Woods Hole Oceanographic Institution

In our opinion, the accompanying statement of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Woods Hole Oceanographic Institution (the "Institution") at December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Institution's 2007 financial statements, and in our report dated August 20, 2008, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 4 to the financial statements, the Institution adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as of December 31, 2008.

As discussed in Notes 2, 9 and 10, to the accompanying financial statements, the Institution changed the manner in which it reports the funded status of its benefit plans and consideration of the effects of prior year misstatements in 2007.

PricewaterhouseCoopers LLP

September 29, 2009

Woods Hole Oceanographic Institution
Statement of Financial Position
December 31, 2008 (with summarized information as of December 31, 2007)

	2008	2007
Assets		
Cash and cash equivalents, unrestricted	$ 22,345,523	$ 28,206,655
Cash and cash equivalents, restricted	2,249,971	2,269,104
Reimbursable costs and fees		
Billed (net of allowance for doubtful accounts of $112,037 for 2008 and $112,119 for 2007)	6,482,388	3,558,454
Unbilled	11,584,460	5,799,835
Receivable for investments sold	2,915	88,117
Interest and dividends receivable	358,233	107,533
Other receivables	961,736	851,891
Pledges receivable, net (Note 5)	11,981,823	10,678,076
Inventory	1,748,989	1,919,810
Deferred charges and prepaid expenses	548,733	1,511,788
Investments, pooled (Note 3)	249,324,406	372,183,273
Investments, nonpooled (Note 3)	64,606	70,036
Deposits with trustees for construction	10,111,687	-
Deposits with trustees for debt service and to pay Series A debt	53,700,092	92
Prepaid pension and postretirement benefit cost	-	887,243
Deferred fixed rate variance (Note 7)	994,079	-
Supplemental retirement	5,058,172	7,111,673
Other assets	11,690,315	13,512,160
Deferred financing costs	1,365,703	1,140,091
	390,573,831	449,895,831
Property, plant and equipment		
Land, buildings and improvements	131,317,680	127,045,920
Vessels and dock facilities	7,622,299	7,509,772
Laboratory and other equipment	28,225,892	26,720,659
Construction in process	2,331,228	880,178
	169,497,099	162,156,529
Accumulated depreciation	(80,760,971)	(72,820,520)
Net property, plant and equipment	88,736,128	89,336,009
Contribution receivable from remainder trusts, net (Note 6)	8,483,567	11,477,118
Total assets	$ 487,793,526	$ 550,708,958
Liabilities		
Line of credit (Note 8)	$ 3,882,556	$ -
Accounts payable and other liabilities (Note 8)	18,185,061	9,817,163
Accrued payroll and related liabilities	6,319,201	5,495,504
Payable for investments purchased	80,167	219,787
Deferred fixed rate variance (Note 7)	-	895,384
Accrued supplemental retirement benefits	5,058,172	7,111,673
Accrued pension and restoration liability	84,409,200	29,935,722
Accrued postretirement liability	11,146,697	6,829,244
Deferred revenue and refundable advances	7,066,560	7,501,719
Bonds payable (Note 8)	117,780,187	54,850,000
Total liabilities	253,927,801	122,656,196

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008	2007
Net Assets					
Undesignated and plant	$ 20,428,525	$ -	$ -	20,428,525	38,604,637
Pension	(96,378,957)	-	-	(96,378,957)	(36,711,089)
Designated	4,723,148	9,155,106	-	13,878,254	13,836,474
Pledges and other	-	14,038,849	14,704,192	28,743,041	26,134,685
Education	-	2,654,310	-	2,654,310	2,348,066
Endowment and similar funds	58,793,501	142,556,268	63,190,783	264,540,552	383,839,989
Total net assets	$ (12,433,783)	$ 168,404,533	$ 77,894,975	233,865,725	428,052,762
Total liabilities and net assets				$ 487,793,526	$ 550,708,958

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

Woods Hole Oceanographic Institution
Statement of Activities
Year Ended December 31, 2008
(with summarized information for the year ended December 31, 2007)

	Unrestricted					
	Operating	Sponsored Research	Temporarily Restricted	Permanently Restricted	2008	2007
Revenues						
Fees	$ 1,706,354	$ -	$ -	$ -	$ 1,706,354	$ 1,000,542
Sponsored research						
Government	-	81,525,012	-	-	81,525,012	79,220,329
Subcontract and nongovernment	-	30,625,912	5,949,866	-	36,575,778	26,190,559
Ships and subs operations	-	26,594,365	-	-	26,594,365	23,848,658
Sponsored research assets released to operations	143,746,255	(138,745,289)	(5,000,966)	-	-	-
Education						
Joint program income	3,901,574	-	-	-	3,901,574	4,030,683
Endowment income	-	-	6,511,855	-	6,511,855	6,339,625
Education funds released from restriction	6,570,546	-	(6,570,546)	-	-	-
Investment return designated for current operations	3,496,652	-	-	-	3,496,652	3,675,754
Contributions and gifts	2,799,181	-	5,533,185	2,044,196	10,376,562	14,319,002
Releases from restrictions	-	-	(2,939,816)	-	(2,939,816)	(2,891,209)
Contributions in kind	218,213	-	-	-	218,213	1,107,195
Rental income	818,849	-	-	-	818,849	812,464
Communication and publications	203,819	-	-	-	203,819	192,469
Other	278,272	-	-	-	278,272	365,767
Total revenues	163,739,715	-	3,483,578	2,044,196	169,267,489	158,211,838
Expenses						
Sponsored research						
National Science Foundation	46,159,787	-	-	-	46,159,787	47,894,430
United States Navy	17,252,140	-	-	-	17,252,140	14,700,120
Subcontracts	11,804,657	-	-	-	11,804,657	10,533,312
National Oceanic & Atmospheric Administration	12,434,847	-	-	-	12,434,847	11,455,058
Department of Energy	172,217	-	-	-	172,217	538,460
United States Geological Survey	1,394,934	-	-	-	1,394,934	1,141,153
National Aeronautics & Space Administration	1,708,155	-	-	-	1,708,155	1,084,372
Ships Operations	20,740,497	-	-	-	20,740,497	18,054,230
Submersible and ROV operations	5,853,868	-	-	-	5,853,868	5,794,428
Privately funded grants	5,510,417	-	-	-	5,510,417	5,179,756
Other	20,714,736	-	-	-	20,714,736	12,690,439
Education						
Faculty expense	3,535,377	-	-	-	3,535,377	3,608,015
Student expense	4,190,903	-	-	-	4,190,903	4,411,514
Postdoctoral programs	420,942	-	-	-	420,942	436,859
Other	736,859	-	-	-	736,859	689,204
Rental expenses	672,104	-	-	-	672,104	603,964
Communication, publications and development	2,322,604	-	-	-	2,322,604	2,166,487
Fundraising expenses	2,536,037	-	-	-	2,536,037	2,407,542
Unsponsored programs	8,842,687	-	-	-	8,842,687	11,065,609
Other expenses	3,704,390	-	-	-	3,704,390	1,994,089
Total expenses	170,708,158	-	-	-	170,708,158	156,449,041
Change in net assets from operating activities	(6,968,443)	-	3,483,578	2,044,196	(1,440,669)	1,762,797
Nonoperating income and expenses						
Investment return (less than)/in excess of amounts designated for sponsored research, education and current operations	(30,649,662)	-	(87,232,228)	-	(117,881,890)	32,904,133
Net realized/unrealized losses on interest rate swap	(10,395,615)	-	-	-	(10,395,615)	(1,651,898)
Change in split interest agreements	(6,048)	-	(33,738)	(3,015,808)	(3,055,594)	411,792
Contributions and gifts	-	-	-	-	-	5,000
Other nonoperating expenses	(99,976)	-	-	-	(99,976)	(99,976)
Net periodic pension costs	(3,190,468)	-	-	-	(3,190,468)	(6,405,433)
Loss on property investment	(1,554,355)	-	-	-	(1,554,355)	-
Redesignation of gifts	-	-	(91,070)	-	(91,070)	(40,063)
Pension related changes other than net periodic pension costs (Note 9)	(56,477,400)				(56,477,400)	-
Change in net assets from nonoperating activities	(102,373,524)	-	(87,357,036)	(3,015,808)	(192,746,368)	25,123,555
Change in net assets from operating and nonoperating activities	(109,341,967)	-	(83,873,458)	(971,612)	(194,187,037)	26,886,352
Adoption of accounting principle - SFAS 158	-	-	-	-	-	(8,921,081)
Cumulative effect of a change in accounting principle - SAB 108	-	-	-	-	-	2,682,793
Total change in net assets	(109,341,967)	-	(83,873,458)	(971,612)	(194,187,037)	20,648,064
Net assets at beginning of year	96,908,184	-	252,277,991	78,866,587	428,052,762	407,404,698
Net assets at end of year	$ (12,433,783)	$ -	$ 168,404,533	$ 77,894,975	$ 233,865,725	$ 428,052,762

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

Woods Hole Oceanographic Institution
Statement of Cash Flows
Year Ended December 31, 2008
(with summarized information for the year ended December 31, 2007)

	2008	2007
Cash flows from operating activities		
Total change in net assets	$ (194,187,037)	$ 20,648,064
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities		
Depreciation and amortization	8,486,936	7,890,601
Change in split interest agreements	3,055,594	(411,792)
Allowance for uncollectible pledges	211,496	(761,709)
Discount on pledges	(493,872)	433,968
Net realized and unrealized loss (gain) on investments	108,397,038	(40,569,822)
Unrealized loss (gain) on interest swap	(9,399,651)	1,511,543
Pension related changes other than net periodic pension cost	56,477,400	-
Contributions to be used for long-term investment	(430,813)	(1,743,205)
Gift in kind	-	(4,300,000)
Loss on property investments	1,554,355	-
Cumulative effect of a change in accounting principle	-	(2,682,793)
Receipt of contributed securities	(279,407)	(3,346,639)
Adoption of accounting principle	-	8,921,081
(Increase) decrease in assets		
Restricted cash	19,133	(676,927)
Interest and dividends receivable	(250,700)	563,649
Reimbursable costs and fees		
Billed	(2,923,934)	(84,731)
Unbilled	(5,784,625)	(32,929)
Other receivables	(109,845)	(101,045)
Pledges receivable	(1,021,371)	2,881,559
Inventory	170,821	(483,825)
Deferred charges and prepaid expenses	963,055	(77,347)
Other assets	267,490	(15,637)
Remainder trusts	-	261,759
Deferred finance costs	(225,612)	42,887
Prepaid pension costs	-	788,826
Supplemental retirement	2,053,501	61,960
Deferred fixed rate variance	(994,079)	-
Increase (decrease) in liabilities		
Accrued pension liability	3,190,468	6,371,359
Accrued pension liability restoration	10,308	-
Accrued postretirement liability	-	(788,826)
Accounts payable and other liabilities	17,660,421	1,456,739
Accrued payroll and related liabilities	823,697	254,331
Deferred revenue and refundable advances	(435,159)	(15,337)
Accrued supplemental retirement benefits	(2,053,501)	(61,960)
Deferred fixed rate variance	(895,384)	(790,542)
Net cash used in operating activities	(16,143,277)	(4,856,740)
Cash flows from investing activities		
Capital expenditures		
Additions to property and equipment	(7,573,472)	(8,327,584)
Short-term investments		
Sale of investments	-	7,000,000
Endowment		
Receivable for investments sold	85,202	106,323
Payable for investments purchased	(139,620)	(286,220)
Proceeds from the sale of investments	90,510,496	117,767,704
Purchase of investments	(76,043,237)	(106,095,799)
Change in construction fund	(10,111,687)	1,063,695
Change in funds for debt service and to pay Series A debt	(53,700,000)	118,894
Liquidation of contributed securities	279,407	3,346,639
Net cash (used in) provided by investing activities	(56,692,911)	14,693,652
Cash flows from financing activities		
Borrowings under debt agreements	66,544,243	-
Contributions to be used for long-term investment	430,813	1,743,205
Net cash provided by financing activities	66,975,056	1,743,205
Net (decrease) increase in cash and cash equivalents	(5,861,132)	11,580,117
Cash and cash equivalents, beginning of year	28,206,655	16,626,538
Cash and cash equivalents, end of year	$ 22,345,523	$ 28,206,655
Supplemental disclosures		
Cash paid for interest	$ 4,308,449	$ 2,166,858
Noncash activity		
Construction in process additions remaining in accounts payable	310,155	265,070
Contributed securities	279,407	3,346,639
Gift in kind	-	4,300,000

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, but do not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institution's audited financial statements for the year ended December 31, 2007, from which the summarized information was derived.

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

Permanently Restricted Net Assets

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

Temporarily Restricted Net Assets

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

Unrestricted Net Assets

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

Contributions
Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Promises to give that are scheduled to be received after the balance sheet date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or items' restrictions are met. Promises to give, subject to donor-imposed stipulations that the corpus be maintained permanently, are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. The Institution has $224,561 and $95,000 of conditional promises to give at December 31, 2008 and 2007, respectively. Contributions other than cash are generally recorded at market value on the date of the gift (or an estimate of fair value), although certain noncash gifts, for which a readily determinable market value cannot be established, are recorded at a nominal value until such time as the value becomes known. Contributions to be received after one year are discounted at the appropriate rate commensurate with risk. Amortization of such discount is recorded as additional contribution revenue in accordance with restrictions imposed by the donor on the original contribution, as applicable. Amounts receivable for contributions are reflected net of an applicable reserve for collectibility.

The Institution reports contributions in the form of land, buildings, or equipment as unrestricted operating support at fair market value when received.

Dividends, interest and net gains on investments of endowment and similar funds are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the current use of the income or net realized and unrealized gains; and
- as increases in unrestricted net assets in all other cases.

Operations
The statement of activities reports the Institution's operating and nonoperating activities. Operating revenues and expenses consist of those activities attributable to the Institution's current annual research or educational programs, all gifts received except those received for property, plant and equipment purposes and a component of endowment income appropriated for operations (Note 3). Unrestricted endowment investment income, gains and losses over the amount appropriated under the Institution's spending plan are reported as nonoperating revenue (expense) as investment return in excess of (less than) amounts designated for sponsored research, education and current operations. Nonoperating expense also includes the change in value of split interest agreements, realized/unrealized losses on interest swaps, losses on property investments and the net periodic pension cost on the noncontributory defined benefit pension plan that is not reimbursed through negotiated fixed rate agreements with the federal government. Additionally, nonoperating activities includes redesignation of donor gifts, depreciation on certain government-funded facilities and pension related changes other than net periodic pension costs.

Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements* ("SAB 108")
In September 2006, the Securities and Exchange Commission staff issued SAB 108. SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify and assess the materiality of financial statement misstatements. Although the SAB is directly applicable to public companies, the Institution has elected to follow the prescribed guidance, by analogy.

Traditionally, there have been two accepted methods for quantifying and assessing the materiality of the effects of financial statement misstatements: the "rollover" method and the "iron curtain" method. The rollover method focuses primarily on the impact of a misstatement on the statement of activities - including the reversing effect of prior year misstatements - but its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year misstatements on the statement of activities. Prior to the application of SAB 108, the Institution used the rollover method for quantifying and assessing the materiality of financial statement misstatements.

SAB 108 establishes an approach that requires quantification and assessment of the materiality of financial statement misstatements based on the effects of the misstatements on each of the Institution's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification and assessment of the materiality of misstatements under both the iron curtain and the rollover methods. SAB 108 permits companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been applied or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of unrestricted net assets. The Institution elected to record the effects of applying SAB 108 using the cumulative effect transition method in fiscal 2007.

Prior to fiscal 2007, the Institution had certain accumulated accruals/reserves that are no longer required. Under the rollover method, these misstatements were not material to the statement of activities in any given year. With the adoption of SAB 108 as of December 31, 2007, management eliminated certain accruals in the amount of $2,682,793 and recorded this change as a cumulative effect of a change in accounting principle in the statement of activities.

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 and approximates market value.

Included in restricted cash at December 31, 2008 and 2007 is $1,701,678 and $1,477,744, respectively, representing advances received from the United States Navy and other U.S. Government and state agencies. Such amounts are restricted as to use for research programs. Interest earned on unspent funds is remitted to the federal government.

Also included in restricted cash at December 31, 2008 and 2007 is $548,293 and $791,360, respectively, representing cash restricted by the Massachusetts Radiation Control Program and Department of Environmental Protection. Interest earned on unspent funds is reinvested within the restricted cash account.

In addition, cash and cash equivalents include all uninvested amounts from pooled investments.

Investments
Investment securities are carried at market value determined as follows: securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year; securities traded in the over-the-counter market and listed securities for which no sales prices were reported on that day are valued at closing bid prices. The value of publicly traded securities is based upon quoted market prices and net asset values. Other securities, such as private equity funds, venture capital funds and hedge funds for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. The Institution reviews and evaluates the valuations provided by investment managers and believes that these valuations are a reasonable estimate of fair value as of December 31, 2008 and 2007 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.

Investment Income Unitization
The Institution's investments are pooled in an endowment fund and the investments and allocation of income are tracked on a unitized basis. The Institution distributes to operations for each individual fund an amount of investment income earned by each of the fund's proportionate share of investments based on a total return policy.

The Board of Trustees has appropriated all of the income and a specified percentage of the net appreciation (depreciation) to operations as prudent considering the Institution's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the Institution's current endowment spending policy, which is within the guidelines specified under state law, between 4% and 5.5% of a 36-month average market value of qualifying endowment investments is appropriated. This amounted to $15,958,373 and $15,555,591 for the years ending December 31, 2008 and 2007, respectively, and is classified in operating revenues (research, education, and operations). The Institution also distributed cash of $134,727 for the year ending December 31, 2008.

Deposits with Trustees
Deposits with trustees consist principally of investments in United States Government obligations and have been deposited with trustees as required under certain loan agreements. At December 31, 2008 and 2007, respectively, the amounts consist of $53,700,092 and $92 for debt service and to pay Series A debt and $10,111,687 and $0 for construction purposes.

Other Assets
Other assets consist primarily of investments held by various split-interest agreements and donated property.

Inventories
Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Contracts and Grants
Revenues earned on contracts and grants for research are recognized as related costs are incurred.

The Institution received approximately 83% and 88% of its sponsored research revenues from government agencies including 47% and 52% of its operating revenues from the National Science Foundation and 13% and 13% from the United States Navy in fiscal years 2008 and 2007, respectively. Although applications for research funding to federal agencies historically have been funded, authorizations are subject to annual Congressional appropriations and payment.

Deferred Financing Costs
Costs incurred in connection with the placement of the Massachusetts Health and Educational Facilities Authority, Variable Rate Revenue Bonds, Woods Hole Oceanographic Institution Issue, Series A 2004 (the "Series A Bonds") and the Massachusetts Health and Educational Facilities Authority, Revenue Bonds, Woods Hole Oceanographic Institution Issue, Series B (2008) (the "Series B Bonds"), have been deferred and are being amortized over the term of the obligation on a straight line basis.

Interest Rate Swap
The Institution has entered into an interest rate swap agreement on the Series A and 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.

Net payments or receipts (difference between variable and fixed rate) under the swap agreement along with the change in fair value of the swap are recorded in nonoperating activities as net realized/unrealized losses on interest swap.

Property, Plant and Equipment
Property, plant and equipment are stated at cost. Depreciation is provided on a straight-line basis at annual rates of 12 to 39 years on buildings and improvements, 10 to 15 years on vessels and dock facilities and 5 to 10 years on laboratory and other equipment. Depreciation expense on property, plant, and equipment purchased by the Institution in the amounts of $8,118,462 and $7,790,625 in 2008 and 2007, respectively, has been charged to operating activities. Depreciation on certain government-funded facilities (the Laboratory for Marine Science and the dock facility) amounting to $99,976 both in 2008 and 2007 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.

Reclassifications
Certain amounts have been reclassified in the prior year financial statements to conform with current year classification.

3. Investments

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

	2008		2007	
	Cost	Market	Cost	Market
U.S. equity	$ 48,938,730	$ 38,583,054	$ 60,767,849	$ 71,919,631
Global developed equity	51,033,390	37,527,967	74,620,741	93,490,200
Emerging markets equity	22,210,104	10,865,692	17,986,546	24,607,525
Marketable alternative assets	59,295,000	64,756,585	36,295,000	53,360,764
Real assets	27,026,449	20,025,017	27,049,709	38,926,689
Bonds	35,055,789	35,993,142	46,463,977	48,312,910
Nonmarketable assets	45,329,176	41,572,949	35,142,051	41,565,554
Total investments	$ 288,888,638	$ 249,324,406	$ 298,325,873	$ 372,183,273

Included in bonds and equities are alternative investment vehicles including commingled funds with a market value of $39,460,686 and $67,880,784 at December 31, 2008 and 2007, respectively, whose holdings are bonds and equities. Included in U.S. equity, marketable alternative assets and nonmarketable assets are hedge funds of $67,985,074 and $60,030,751 at December 31, 2008 and 2007, respectively. Included in global developed equity and nonmarketable assets are private equity and venture capital funds of $56,299,549 and $73,198,102 at December 31, 2008 and 2007, respectively. Total alternative investments (as described in the American Institute of Certified Public Accountants document, "*A Practice Aid for Auditors: Alternative Investments - Audit Considerations*) included in the above categories at December 31, 2008 and 2007, respectively, were $183,770,329 and $240,036,326.

The nonpooled investments consist of a common/collective trust fund invested in bonds with a market value of $64,606 in 2008 and $70,036 in 2007.

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

	Unrestricted	Temporarily restricted	2008 Total	2007 Total
Dividend and interest income	$ 1,543,931	$ 6,511,855	$ 8,055,786	$ 9,897,312
Investment management costs	(1,582,265)	-	(1,582,265)	(1,826,770)
Net realized gains	1,161,586	3,849,182	5,010,768	33,296,641
Change in unrealized (depreciation) appreciation	(28,276,262)	(85,131,544)	(113,407,806)	7,273,181
Total return on investments	(27,153,010)	(74,770,507)	(101,923,517)	48,640,364
Investment return designated for				
Sponsored research	-	(5,949,866)	(5,949,866)	(5,720,852)
Education	-	(6,511,855)	(6,511,855)	(6,339,625)
Current operations	(3,496,652)	-	(3,496,652)	(3,675,754)
Total distributions to operations	(3,496,652)	(12,461,721)	(15,958,373)	(15,736,231)
Investment return (less than) in excess of amounts designated for sponsored research, education and current operations	$ (30,649,662)	$ (87,232,228)	$ (117,881,890)	$ 32,904,133

Investment return distributed to operations includes $0 and $180,640 earned on non-endowment investments for the years ended December 31, 2008 and 2007, respectively.

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

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

Endowment income for pooled investments is allocated to each individual fund based on a per unit valuation. The value of an investment unit at December 31 is as follows:

	2008	2007
Unit value, beginning of year	$ 5.2520	$ 4.7179
Unit value, end of year	3.9408	5.2520
Net change for the year	(1.3112)	.5341
Investment income per unit for the year	.0993	.1075
Total return per unit	$ (1.2119)	$ .6416

4. Fair Value Disclosures

On January 1, 2008, the Institution adopted Financial Accounting Standards Board (“FASB”) Statement No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP") and expands disclosures about fair value measurements. FASB Statement No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, FASB Statement No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in FASB Statement No. 157. The three valuation techniques are as follows:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques).

The following fair value hierarchy tables present information about the Institution's assets and liabilities measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations.

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

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

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

The following table presents the assets and liability carried at fair value as of December 31, 2008 that are classified within level 3 of the fair value hierarchy. The table reflects gains and losses for the year, including gains and losses on assets and liabilities that were transferred to level 3 during the year, for all assets and liabilities categorized as level 3 as of December 31, 2008. Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Institution has classified within the level 3 category. As a result, the unrealized gains and losses for assets and liabilities within level 3 may include changes in fair value that were attributable to both observable and unobservable inputs.

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

5. Pledges Receivable

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 8.25% and 2.36% - 4.74% at December 31, 2008 and 2007, respectively.

Pledges receivable consist of the following at December 31:

	2008	2007
Unconditional promises expected to be collected in:		
Less than one year	$ 6,034,724	$ 5,818,583
One year to five years	7,111,230	6,306,000
Reserve for uncollectible pledges receivable	(500,217)	(288,721)
Unamortized discount	(663,914)	(1,157,786)
	$ 11,981,823	$ 10,678,076

6. Contribution Receivable from Remainder Trusts, Net

Contributions receivable from remainder trusts at December 31, 2008 and 2007 were $8,483,567 and $11,477,118, respectively. The receivable and related revenue is measured at the present value of estimated future cash flows to be received, net of expected payouts, and recorded in the appropriate net asset category based on donor stipulation. During the term of these agreements, changes in the value are recognized based on amortization of discounts and changes in actuarial assumptions. For the year ending December 31, 2007, discount rates ranging from 5% to 8% were used in these calculations. For the year ending December 31, 2008, discount rates ranging from 6.4% to 7.0% were used in these calculations.

7. Deferred Fixed Rate Variance

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

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

Deferred Fixed Rate Variance liability, December 31, 2006	$ (1,685,926)
2007 indirect costs	61,298,187
2006 adjustment	(11,529)
Amounts recovered	(60,496,116)
2007 change	790,542
Deferred Fixed Rate Variance liability, December 31, 2007	(895,384)
2008 indirect costs	65,600,121
Amounts recovered	(63,710,658)
2008 change	1,889,463
Deferred Fixed Rate Variance asset, December 31, 2008	$ 994,079

As of December 31, 2008, the Institution has expended a cumulative amount in excess of recovered amounts of $994,079 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 and Bonds Payable

Indebtedness at December 31, 2008 and 2007 includes bonds issued through the Massachusetts Health and Education Facilities Authority (MHEFA). Balances of outstanding bonds and notes payable at December 31 consisted of the following:

	2008	2007
MHEFA, Series A, Variable Rate Revenue Bonds	$ 53,700,000	$ 54,850,000
MHEFA, Series B, Fixed Rate Revenue Bonds	65,000,000	-
Less: Series B unamortized bond discount	(919,813)	-
Bonds Payable	$ 117,780,187	$ 54,850,000

In fiscal 2004, proceeds were received from the offering of the $54,850,000 Massachusetts Health and Educational Facilities Authority, Variable Rate Revenue Bonds, Woods Hole Oceanographic Institution Issue, Series A (2004), (the "Series A Bonds"), which were used to repay the MHEFA B Pool loans and for campus construction completed in December 2007. The bonds contain certain restrictive covenants including limitations on obtaining additional debt, filings of annual financial statements and limitations on the creation of liens. In addition, the Institution agrees that, subject to any governmental restrictions, its fiduciary obligations and limitations imposed by law, it will maintain unrestricted resources at a market value equal to at least 75% of all outstanding indebtedness. The Series A Bonds are collateralized by the Institution's unrestricted revenues. The interest rate for the Series 2004 Bonds is variable and set weekly, and at December 31, 2008, the rate was 6.25%. Interest expense for the years ended December 31, 2008 and 2007 was $3,312,485 and $2,166,858, respectively.

On December 1, 2008, the Institution issued $65,000,000 Massachusetts Health and Educational Facilities Authority, Fixed Rate Revenue Bonds, Woods Hole Oceanographic Institution Issue, Series B (2008), (the "Series B Bonds"). The proceeds will be used for major maintenance and renovation projects throughout the Institution and to retire the Series A Bonds, on January 2, 2009, the earliest possible call date. The Series B Bonds mature in 2034 and bear fixed interest rates from 4% to 5.5% payable on June 1 and December 1 beginning in 2009. The Series B Bonds are collateralized by the Institution's unrestricted revenues. The Institution incurred costs of $268,500 associated with the issue which have been capitalized and are being amortized over the life of the bonds. At December 31, 2008, deposits with trustees include $53,700,000 to pay Series A bonds and $10,111,687 of construction funds held by trustees that will be drawn down to fund various construction projects. Debt covenants are consistent with the requirements under the Series A bond agreement as long as the interest rate swap agreement is in effect. The fair value of the Series B bond which is based on current traded values for the same or similar issues or on the current rates offered for debt of the same remaining maturities was $64,746,967 at December 31, 2008. Management believes the carrying value of the remaining debt instruments approximates fair value.

The Institution retired the Series A Bonds on January 2, 2009, the earliest possible call date, using the Series B Bond proceeds maintained in the debt service fund at December 31, 2008. The Series A Bond balance was $53,700,000 on December 31, 2008.

The Institution has an uncollateralized $10,000,000 line of credit. This line of credit bears interest at one percent below the Wall Street Journal Prime Rate. At December 31, 2008, the Institution had $3,882,556 outstanding on the line of credit. The line of credit expires in October 2009.

In June 2004, the Institution entered into an interest rate swap agreement, with a term through June 1, 2034. This swap effectively locks in a fixed rate of 3.79% per annum. The agreement has a notional amount of $54,850,000. At December 31, 2008 and 2007, respectively, the market value of the swap agreement amounted to a liability of $12,871,650 and $3,471,999 which is included in accounts payable and other liabilities. The value of the interest rate swap is reflected within accounts payable and other liabilities and nonoperating income/expense in the financial statements. Additionally, the Institution paid interest expense in association with the swap agreement of $995,964 and $140,355 which is reflected as part of the net realized/unrealized losses on interest swap at December 31, 2008 and 2007, respectively.

The aggregate maturities due on the Series B long-term debt at December 31, 2008 are as follows:

Fiscal Year	**Principal Amount**
2009	$ 685,000
2010	1,415,000
2011	1,475,000
2012	1,530,000
2013	1,595,000
Thereafter	58,300,000
	$ 65,000,000

9. Retirement Plans

The Institution maintains a noncontributory defined benefit pension plan covering substantially all employees of the Institution, a restoration plan for certain senior employees and a supplemental benefit plan for certain other employees. Pension benefits are earned based on years of service and compensation received. The Institution's policy is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974.

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

	Restoration Plan Pension Benefits	
	2008	**2007**
Change in benefit obligation		
Benefit obligation at beginning of year	$ -	$ 34,074
Interest cost	1,769	4,641
Actuarial loss	28,038	119,307
Settlements	-	(158,022)
Benefit obligation at end of year	$ 29,807	$ -
Funded status	$ (29,807)	$ -
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (29,807)	$ -
Net amount recognized	$ (29,807)	$ -

Amounts recognized in unrestricted net assets				
Net actuarial loss	$	19,499	$	-
Information for pension plans with accumulated benefit obligations in excess of plan assets				
Projected benefit obligation	$	29,807	$	-
Accumulated benefit obligation		6,713		-
Component of net periodic benefit cost				
Interest cost		1,769		4,641
Recognized actuarial loss		8,539		79,201
Net periodic benefit cost	$	10,308	$	83,842
Other changes in benefit obligations recognized in unrestricted net assets				
Net actuarial loss	$	19,499	$	-
Total recognized in nonoperating expense	$	19,499	$	-
Weighted-average assumptions used to determine benefit obligations at December 31				
Discount rate		6.50%		6.25%
Rate of compensation increase		4.50%		4.50%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31				
Discount rate		6.25%		6.00%
Rate of compensation increase		4.50%		4.50%

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

Amortization of net loss	$	8,323

Expected Contributions
The Institution does not anticipate contributing to the Restoration Plan in 2009.

Estimated Future Benefit Payments
There are no expected benefit payments for 2009. There are expected future benefit payments of $34,380 for the year ending December 31, 2011.

	Qualified Plan Pension Benefits 2008	Qualified Plan Pension Benefits 2007
Change in benefit obligation		
Benefit obligation at beginning of year	$ 216,059,940	$ 215,891,241
Service cost	6,818,972	6,525,239
Interest cost	13,167,915	12,424,161
Actuarial gain	(5,418,314)	(2,764,717)
Benefits paid	(16,671,027)	(16,015,984)
Benefit obligation at end of year	$ 213,957,486	$ 216,059,940
Change in plan assets		
Fair value of plan assets at beginning of year	$ 186,124,218	$ 171,342,150
Adjustment to beginning balance for additional fair value of investments		-
Employer contributions	7,935,274	6,027,869
Actual return on plan assets	(47,810,372)	24,770,183
Benefits paid	(16,671,027)	(16,015,984)
Fair value of plan assets at end of year	$ 129,578,093	$ 186,124,218
Funded status	$ (84,379,393)	$ (29,935,722)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (84,379,393)	$ (29,935,722)
Net amount recognized	$ (84,379,393)	$ (29,935,722)
Amounts recognized in unrestricted net assets		
Net prior service cost	$ 11,455,419	$ 13,389,338
Net actuarial loss (gain)	41,988,038	(11,199,084)
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 213,957,486	$ 216,059,940
Accumulated benefit obligation	178,423,527	180,366,990
Fair value of plan assets	129,578,093	186,124,218
Components of net periodic benefit cost		
Service cost	$ 6,818,972	$ 6,525,239
Interest cost	13,167,915	12,424,161
Expected return on plan assets	(11,470,123)	(10,365,552)
Amortization of prior service cost	1,933,919	1,933,919
Recognized actuarial loss	675,059	1,915,535
Net periodic benefit cost	$ 11,125,742	$ 12,433,302
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
SFAS 158 change in accounting principle	N/A	$ 2,190,254
Amortization of prior service cost	$ (1,933,919)	N/A
Amortization of actuarial loss	(675,059)	N/A
Net actuarial loss	53,862,181	N/A
Total recognized in nonoperating expense	$ 51,253,203	$ 2,190,254

The Institution has reflected $7,935,274 and $6,027,869 for the years ending December 31, 2008 and 2007, respectively, of the net periodic benefit cost in the operating section of the statement of activities which represents the amount reimbursed through the employee benefit fixed rate as negotiated with the United States Government. The remaining $3,190,468 and $6,405,433 for the years ending December 31, 2008 and 2007, respectively, of net periodic benefit cost is reflected in nonoperating expenses.

The impact of the adoption of SFAS 158 resulted in a net decrease of $2,190,254 in unrestricted net assets, which has been recorded as an adoption of an accounting principle for the year ended December 31, 2007. The net decrease is comprised of the net prior service cost of $13,389,338 and actuarial gain of $11,199,084.

The incremental effect of applying SFAS 158 on individual items in the statement of financial position as of December 31, 2007 is as follows:

	Before Application of SFAS 158	Defined Benefit Plan Adjustments	After Application of SFAS 158
Accrued pension liability	$ 27,745,468	$ 2,190,254	$ 29,935,722
Total liabilities	120,465,942	2,190,254	122,656,196
Unrestricted net assets	99,098,438	(2,190,254)	96,908,184
Total net assets	430,243,016	(2,190,254)	428,052,762

	Qualified Plan Pension Benefits	
	2008	**2007**
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.50%	6.25%
Rate of compensation increase	4.50%	4.50%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	6.25%	6.00%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	4.50%	4.50%

To develop the expected long-term rate of return on assets assumption, the Institution considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio, net of expenses expected to be paid. This resulted in the selection of the 8.00% assumption.

Plan Assets
The Institution's pension plan weighted-average asset allocations at December 31, 2008 and 2007, by asset category are as follows:

Asset Category	2008	2007
U.S. equity	11%	13%
Global developed equity	16%	26%
Emerging markets equity	4%	7%
Marketable alternative assets	17%	15%
Real assets	5%	8%
Bonds	18%	14%
Nonmarketable assets	27%	12%
Cash and cash equivalents	2%	5%
	100%	100%

The following target asset allocation is used:

Asset Category	Target Allocation
U.S. equity	21%
Global developed equity	20%
Emerging markets equity	4%
Marketable alternative assets	20%
Real assets	10%
Bonds	10%
Nonmarketable assets	15%
Cash and cash equivalents	0%

The primary financial objectives of the assets of the Plan are to (1) provide a stream of relatively predictable, stable and constant earnings in support of the Qualified Plan's annual benefit payment obligations; and (2) preserve and enhance the real (inflation-adjusted) value of assets, over time, with the goal of meeting the anticipated future benefit obligations of the qualified plan.

The long-term investment objectives of the assets of the Plan are to (1) attain the average annual total return assumed in the Plan's most recent actuarial assumptions (net of investment management fees) over rolling five-year periods; and (2) outperform the custom benchmark.

Expected amounts amortized from unrestricted net assets into net periodic pension cost for the next fiscal year	
Amortization of net prior service cost	$ 1,678,806
Amortization of net loss	241,554

Expected Contributions

The Institution anticipates contributing $13,000,000 to the Qualified Plan in 2009.

Estimated Future Benefit Payments

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

Years	Benefit Payments
2009	$ 13,311,914
2010	12,012,018
2011	14,583,307
2012	15,587,019
2013	15,971,771
2014 - 2018	84,595,383

	Supplemental Plan Pension Benefits	
	2008	**2007**
Change in benefit obligation		
Benefit obligation at beginning of year	$ 2,656,213	$ 3,113,322
Service cost	33,691	42,114
Interest cost	126,401	149,445
Actuarial gain	(516,225)	(485,609)
Benefits paid	(151,045)	(163,059)
Benefit obligation at end of year	$ 2,149,035	$ 2,656,213
Change in plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	151,045	163,059
Benefits paid	(151,045)	(163,059)
Fair value of plan assets at end of year	$ -	$ -
Funded status	$ (2,149,035)	$ (2,656,213)

Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (2,149,035)	$ (2,656,213)
Net amount recognized	$ (2,149,035)	$ (2,656,213)
Amounts recognized in unrestricted net assets		
Net prior service cost	$ 19,491	$ 26,111
Net actuarial (gain)	(1,169,664)	(913,354)
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 2,149,035	$ 2,656,213
Accumulated benefit obligation	2,057,077	2,519,193
Components of net periodic benefit cost		
Service cost	$ 33,691	$ 42,114
Interest cost	126,401	149,445
Expected return on earmarked reserves	(196,395)	(192,548)
Amortization of prior year service cost	6,620	6,620
Recognized actuarial gain	(234,572)	(138,983)
Net periodic benefit income	$ (264,255)	$ (133,352)

The accrued supplemental retirement is matched by a "Rabbi" Trust with $5,058,172 and $7,111,673, respectively, as of December 31, 2008 and 2007. An additional accrual of $2,909,137 and $4,455,460 has been established for the excess of the "Rabbi" Trust assets over the accrued supplemental retirement benefits at December 31, 2008 and 2007, respectively. Income earned on the investments earmarked for the supplemental retirement plan amounted to $171,052 and $202,232 for the years ended December 31, 2007 and 2006, respectively.

	Supplemental Plan Pension Benefits	
	2008	**2007**
Actual return on earmarked reserves	$ 171,052	$ 202,232
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.50%	6.25%
Rate of compensation increase	4.50%	4.50%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	6.25%	6.00%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	4.50%	4.50%

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

Amortization of net prior service cost	6,361
Amortization of net loss (gain)	(187,996)

Expected Contributions

The Institution anticipates contributing $232,978 to the Supplemental Plan in 2009.

Estimated Future Benefit Payments

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

Years	Benefit Payments
2009	$ 232,978
2010	330,818
2011	392,561
2012	423,805
2013	377,221
Years 2014 - 2018	841,703

10. Other Postretirement Benefits

In addition to providing retirement plan benefits, the Institution provides certain health care benefits for retired employees and their spouses. Substantially all of the Institution's employees may become eligible for the benefits if they reach normal retirement age (as defined) or elect early retirement after having met certain time in service criteria.

	Other Postretirement Benefits 2008	2007
Change in benefit obligation		
Benefit obligation at beginning of year	$ 29,716,604	$ 31,291,763
Service cost	611,868	791,711
Interest cost	1,642,932	1,726,221
Benefits paid	(1,042,731)	(1,038,077)
Actuarial (gain) loss	(4,300,358)	(3,055,014)
Benefit obligation at end of year	$ 26,628,315	$ 29,716,604

Change in plan assets		
Fair value of plan assets at beginning of year	$ 22,887,362	$ 21,276,483
Employer contributions	447,218	755,248
Actual return on plan assets	(6,810,231)	1,893,708
Benefits paid	(1,042,731)	(1,038,077)
Fair value of plan assets at end of year	$ 15,481,618	$ 22,887,362
Funded status	$ (11,146,697)	$ (6,829,242)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (11,146,697)	$ (6,829,242)
Net amount recognized	$ (11,146,697)	$ (6,829,242)
Amounts recognized in unrestricted net assets		
Net prior service cost	$ (8,095,510)	$ (8,935,356)
Net actuarial loss	20,031,035	16,553,426
Components of net periodic benefit cost		
Service cost	$ 611,868	$ 791,711
Interest cost	1,642,932	1,726,221
Expected return on plan assets	(1,788,961)	(1,678,301)
Amortization of prior service cost	(839,846)	(1,366,423)
Recognized actuarial gain	821,225	1,282,040
Net periodic benefit cost	$ 447,218	$ 755,248
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
SFAS 158 change in accounting principle	N/A	$ 7,618,070
Amortization of prior service cost	$ 839,846	N/A
Amortization of actuarial loss	(821,225)	N/A
Net actuarial loss	4,298,834	N/A
Total recognized in nonoperating expense	$ 4,317,455	$ 7,618,070

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

The impact of the adoption of SFAS 158 resulted in a net decrease of $7,618,070 in unrestricted net assets, which has been recorded as an adoption of an accounting principle for the year ended December 31, 2007. The net decrease is comprised of the net prior service cost of $8,935,356 and actuarial loss of $16,553,426.

Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.25%	6.50%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	6.50%	6.00%
Expected long-term rate of return on plan assets	8.00%	8.00%

The incremental effect of applying SFAS 158 on individual items in the statement of financial position as of December 31, 2007 is as follows:

	Before Application of SFAS 158	Defined Benefit Plan Adjustments	After Application of SFAS 158
Accrued postretirement liability	$ (788,826)	$ 7,618,070	$ 6,829,244
Total liabilities	115,038,126	7,618,070	122,656,196
Unrestricted net assets	104,526,254	(7,618,070)	96,908,184
Total net assets	435,670,832	(7,618,070)	428,052,762

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

	2008		2007	
	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	9.0%	7.0%	9.0%	7.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2016	2013	2015	2012

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:

	2008 One-Percentage-Point Increase in Trend	2007 One-Percentage-Point Increase in Trend
Effect on total of service cost and interest cost components	$ 383,612	$ 449,211
Effect on year-end postretirement benefit obligation	3,934,941	4,296,768
	One-Percentage-Point Decrease in Trend	**One-Percentage-Point Decrease in Trend**
Effect on total of service cost and interest cost components	$ (307,472)	$ (358,060)
Effect on year-end postretirement benefit obligation	(3,229,098)	(3,530,266)

Plan Assets

The Institution's postretirement benefit plan weighted-average asset allocations at December 31, 2008 and 2007, by asset category are as follows:

Asset Category	2008	2007
Equity securities	83%	92%
Cash	17%	8%
	100%	100%

To develop the expected long-term rate of return on assets assumption, the Institution considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio, net of expenses expected to be paid. This resulted in the selection of the 8.00% assumption.

As of January 1, 2006, the required copayments and other features of the underlying medical benefit plan were updated resulting in a decrease in the obligation of $242,000.

Expected amounts amortized from unrestricted net assets into net periodic pension cost for the next fiscal year	
Amortization of net prior service cost	$ (839,846)
Amortization of net loss	1,482,941

Expected Contributions

The Institution anticipates contributing $1,700,000 to the Retiree Medical Plan in 2009.

Estimated Future Benefit Payments

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

Years	Benefit Payments
2009	$ 1,281,887
2010	1,342,082
2011	1,428,266
2012	1,524,634
2013	1,653,942
Years 2014 - 2018	9,280,963

11. Endowment

In August 2008, the FASB issued FASB Staff position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The following disclosures are made as required by FSP FAS 117-1.

The Institution's endowment consists of approximately 133 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, 2008, the endowment net asset composition by type of fund consisted of the following:

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

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

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

As of December 31, 2007, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 229,796,930	$ 64,599,278	$ 294,396,208
Board-designated fund	89,443,781	-	-	89,443,781
	$ 89,443,781	$ 229,796,930	$ 64,599,278	$ 383,839,989

Changes in endowment net assets for the year ended December 31, 2007, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 80,788,042	$ 204,450,605	$ 61,718,923	$ 346,957,570
Investment return				
Investment income	1,839,152	6,050,750	-	7,889,902
Net appreciation (realized and unrealized)	9,380,472	31,189,349	-	40,569,821
Total investment gain	11,219,624	37,240,099	-	48,459,723
Contributions	1,067,592	25,200	2,473,703	3,566,495
Appropriation of endowment assets for expenditure	(3,621,398)	(11,934,193)	-	(15,555,591)
Change in split interest agreements	(10,079)	15,219	406,652	411,792
Endowment net assets, end of year	$ 89,443,781	$ 229,796,930	$ 64,599,278	$ 383,839,989

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 2005. 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, 2006 on September 14, 2007. The 2007 costs remain subject to audit. Any adjustments will be recorded in the years they become known.

The Institution, through its pooled investments, is committed to invest approximately $26 million in certain venture capital and investment partnerships as of December 31, 2008. Such commitments will be funded through liquidity in existing investments.

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

In fiscal year 2008, 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 $833,253 and $645,383 for the years ended December 31, 2008 and 2007. 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 $1,844,805 and $1,158,791 for the years ended December 31, 2008 and 2007, respectively.

The Institution has loans due from various employees for education advances and computer purchases. The amounts outstanding are approximately $893,393 and $791,000 at December 31, 2008 and 2007, respectively.