

Worcester Polytechnic Institute

**Consolidated Financial Statements
June 30, 2009 and 2008**

Worcester Polytechnic Institute
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June 30, 2009 and 2008

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Report of Independent Auditors

To the Board of Trustees of
Worcester Polytechnic Institute

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of Worcester Polytechnic Institute (the "University") at June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 23, 2009

Worcester Polytechnic Institute
Consolidated Statements of Financial Position
June 30, 2009 and 2008 (in thousands)

	2009	2008
Assets		
Cash and cash equivalents	\$ 11,141	\$ 11,065
Accounts receivable, net	3,985	6,297
Contributions receivable, net	15,381	11,315
Funds held under bond agreements	454	8,668
Prepaid expenses and other assets	4,607	4,551
Student loans receivable, net	21,702	21,168
Beneficial interest in trusts	13,379	17,154
Investments	307,219	404,387
Land, buildings and equipment, net	185,817	176,797
Total assets	<u>\$ 563,685</u>	<u>\$ 661,402</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 14,673	\$ 18,808
Deposits and deferred revenue	7,323	7,318
Split-interest agreements	10,045	11,193
Funds held for others	2,855	4,040
Asset retirement obligations	5,037	4,661
Refundable government loan funds	6,792	6,792
Bonds and notes payable	141,789	143,987
Interest rate agreements	6,721	4,021
Total liabilities	<u>195,235</u>	<u>200,820</u>
Net assets		
Unrestricted	175,802	234,037
Temporarily restricted	79,313	117,869
Permanently restricted	113,335	108,676
Total net assets	<u>368,450</u>	<u>460,582</u>
Total liabilities and net assets	<u>\$ 563,685</u>	<u>\$ 661,402</u>

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

Worcester Polytechnic Institute
Consolidated Statement of Activities
Year Ended June 30, 2009 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	\$ 126,530	\$ -	\$ -	\$ 126,530
Less Unrestricted student aid	35,961	-	-	35,961
Endowed scholarships	5,162	-	-	5,162
Externally funded student aid	4,137	-	-	4,137
Total student aid	45,260	-	-	45,260
Net tuition and fees	81,270	-	-	81,270
Other educational activities	8,887	-	-	8,887
Contributions	2,783	2,331	-	5,114
Contract and exchange transactions	19,455	-	-	19,455
Investment income on endowment and similar funds	3,115	19	93	3,227
Net realized gains on endowment used for operations	7,981	7,170	-	15,151
Other investment income	3,255	316	51	3,622
Sales and services of auxiliary enterprises	16,364	-	-	16,364
Other	2,304	-	-	2,304
Total revenues	145,414	9,836	144	155,394
Net assets released from restriction	8,387	(8,387)	-	-
Total revenues and other support	153,801	1,449	144	155,394
Operating expenses				
Instruction and department research	54,399	-	-	54,399
Sponsored research and other sponsored programs	12,958	-	-	12,958
External relations	6,415	-	-	6,415
Institution and academic support	32,837	-	-	32,837
Student services	9,083	-	-	9,083
Operation and maintenance of plant	25,516	-	-	25,516
Auxiliary enterprises	8,044	-	-	8,044
Total operating expenses	149,252	-	-	149,252
Change in net assets from operating activities	4,549	1,449	144	6,142
Nonoperating				
Net realized and unrealized losses on investments	(43,881)	(41,842)	(3,543)	(89,266)
Net realized gains on endowment used for operations	(7,981)	(7,170)	-	(15,151)
Provision for underwater funds	(5,445)	5,445	-	-
Transfer of quasi-endowment funds	(1,308)	1,308	-	-
Change in value of split interest agreements	(521)	780	-	259
Contributions	-	1,474	8,058	9,532
Net realized and unrealized losses on interest rate agreements	(3,648)	-	-	(3,648)
Change in net assets from nonoperating activities	(62,784)	(40,005)	4,515	(98,274)
Total change in net assets	(58,235)	(38,556)	4,659	(92,132)
Net assets, beginning of year	234,037	117,869	108,676	460,582
Net assets, end of year	\$ 175,802	\$ 79,313	\$ 113,335	\$ 368,450

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

Worcester Polytechnic Institute
Consolidated Statement of Activities
Year Ended June 30, 2008 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	\$ 114,576	\$ -	\$ -	\$ 114,576
Less Unrestricted student aid	32,739	-	-	32,739
Endowed scholarships	5,005	-	-	5,005
Externally funded student aid	4,098	-	-	4,098
Total student aid	41,842	-	-	41,842
Net tuition and fees	72,734	-	-	72,734
Other educational activities	7,926	-	-	7,926
Contributions	3,754	475	-	4,229
Contract and exchange transactions	20,324	-	-	20,324
Investment income on endowment and similar funds	4,711	36	83	4,830
Net realized gains on endowment used for operations	6,117	5,377	-	11,494
Other investment income	3,836	82	58	3,976
Sales and services of auxiliary enterprises	14,113	-	-	14,113
Other	1,006	-	-	1,006
Total revenues	134,521	5,970	141	140,632
Net assets released from restriction	5,963	(5,963)	-	-
Total revenues and other support	140,484	7	141	140,632
Operating expenses				
Instruction and department research	49,668	-	-	49,668
Sponsored research and other sponsored programs	12,634	-	-	12,634
External relations	6,314	-	-	6,314
Institution and academic support	30,424	-	-	30,424
Student services	8,236	-	-	8,236
Operation and maintenance of plant	23,451	-	-	23,451
Auxiliary enterprises	7,549	-	-	7,549
Increase in asset retirement cost	1,433	-	-	1,433
Total operating expenses	139,709	-	-	139,709
Change in net assets from operating activities	775	7	141	923
Nonoperating				
Net realized and unrealized losses on investments	(7,142)	(6,564)	(99)	(13,805)
Net realized gains on endowment used for operations	(6,117)	(5,377)	-	(11,494)
Change in value of split interest agreements	(821)	626	12	(183)
Contributions	-	7,029	7,500	14,529
Net realized and unrealized losses on interest rate agreements	(4,180)	-	-	(4,180)
Loss on extinguishment of debt	(1,209)	-	-	(1,209)
Change in net assets from nonoperating activities	(19,469)	(4,286)	7,413	(16,342)
Total change in net assets	(18,694)	(4,279)	7,554	(15,419)
Net assets, beginning of year	252,731	122,148	101,122	476,001
Net assets, end of year	\$ 234,037	\$ 117,869	\$ 108,676	\$ 460,582

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

Worcester Polytechnic Institute
Consolidated Statements of Cash Flows
Years Ended June 30, 2009 and 2008 (in thousands)

	2009	2008
Cash flows from operating activities		
Change in net assets	\$ (92,132)	\$ (15,419)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation, amortization, and accretion	12,696	11,949
Provision for uncollectible receivables	1,021	1,675
Net realized and unrealized losses (gains) on investments	89,266	13,805
Net unrealized loss on interest rate agreements	2,772	3,620
Increase in asset retirement cost	-	1,433
Loss on extinguishment of debt	-	1,209
Contributions other than cash	(959)	(904)
Contributions restricted for long-term investment	(3,983)	(6,716)
Changes in assets and liabilities:		
Accounts receivable	1,868	(2,470)
Contributions receivable	(4,473)	(9,047)
Prepaid expenses and other assets	(86)	310
Accounts payable and accrued liabilities	(634)	2,440
Deposits and deferred revenue	75	229
Asset retirement obligations	(545)	(96)
Split-interest agreements	(1,148)	(1,506)
Funds held for others	(642)	622
Total adjustments	<u>95,228</u>	<u>16,553</u>
Net cash provided by operating activities	<u>3,096</u>	<u>1,134</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	76,167	63,620
Purchase of investments	(64,114)	(53,875)
Purchase of land, building, and equipment	(24,351)	(45,871)
Use of funds held under bond agreements	8,214	34,377
Termination of interest rate agreements	(2,795)	-
Disbursement of loans to students	(3,740)	(3,709)
Repayment of loans from students	<u>3,036</u>	<u>3,106</u>
Net cash used in investing activities	<u>(7,583)</u>	<u>(2,352)</u>
Cash flows from financing activities		
Contributions restricted for long-term investment	3,983	6,716
Deferred financing costs	-	(377)
Proceeds from interest rate swap agreements	3,254	-
Realized loss on interest rate agreements	(531)	-
Proceeds from long-term debt and rate lock agreement	-	54,815
Repayment of long-term debt	<u>(2,143)</u>	<u>(56,312)</u>
Net cash provided by financing activities	<u>4,563</u>	<u>4,842</u>
Net change in cash and cash equivalents	76	3,624
Cash and cash equivalent at beginning of year	<u>11,065</u>	<u>7,441</u>
Cash and cash equivalents at end of year	<u>\$ 11,141</u>	<u>\$ 11,065</u>
Supplemental disclosures of cash flow information		
Interest paid	\$ 6,726	\$ 5,932
Gifts-in-kind	\$ 469	\$ 201
Purchases of buildings and equipment included in accounts payable	\$ 2,656	\$ 6,157

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

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Notes to Consolidated Financial Statements

June 30, 2009 and 2008

1. Organization

Worcester Polytechnic Institute (the "University"), founded in 1865, is the nation's third oldest private engineering university. Approximately 3,800 undergraduate and graduate students attend the University annually. The University is located in Worcester, Massachusetts and serves a diverse student body from almost every state and over 60 foreign countries.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting with the net assets and revenues, expenses, gains and losses classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Permanently Restricted

Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted

Net assets whose use is restricted by state law or subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to these stipulations or that expire by the passage of time.

Unrestricted

Net assets not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Consolidation

The accompanying consolidated financial statements include the accounts of the University and its wholly owned or controlled subsidiaries. Intercompany accounts and transactions have been eliminated.

Related entities for which the University does not have a majority ownership or controlling financial interest have been accounted for under the equity method. Under this method, investments are recorded based upon the University's original contribution and adjusted for the University's proportionate share of undistributed earnings and losses.

Classifications

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions or by law. 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 stipulation or by law. Expirations of temporary restrictions on net assets (that is, the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions between the applicable classes of net assets.

Operating and Nonoperating Activities

In the consolidated statements of activities, the University has defined its primary activities between operating and nonoperating. Operating activities consist primarily of activities supporting the educational mission and purpose of the University. Nonoperating activities consist primarily of unspent

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appreciation on endowment, change in value of split-interest agreements, net contributions for endowment and capital use, gains or losses on interest rate swap agreements, and realized losses on extinguishment of debt.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The University's significant estimates include the valuation of its investments as well as the estimated net realizable value of receivables for contributions, gifts, pledges, student loans, accounts and other receivables, the estimated useful lives of buildings and equipment, and its liabilities for its asset retirement obligations and its split-interest agreements. Actual results could differ from those estimates.

Financial Instruments

Effective July 1, 2008, the University adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements.

The provisions of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159") were effective July 1, 2008. SFAS 159 gives entities the option, at specific election dates, to measure certain financial assets and liabilities at fair value. The election may be applied to financial assets and liabilities on an instrument by instrument basis, is irrevocable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The University did not elect fair value accounting for any financial assets or liabilities.

The University uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with SFAS 157, the fair value of a financial instrument is 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. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the University's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

In accordance with SFAS 157, the University groups its financial assets and financial liabilities measured at fair value on a recurring basis in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially similar assets or liabilities.

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Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The University's financial assets and liabilities that are measured at fair value on a recurring basis are classified using the above fair value hierarchy at June 30, 2009 as follows (in thousands):

Assets	2009			
	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 14,645			\$ 14,645
Equity securities	86,354	\$ 12,871		99,225
Fixed income securities	32,503	21,259		53,762
Commodities	5,156	3,994		9,150
Hedge fund and alternative investments				
Equity funds			\$ 55,212	55,212
Fixed income funds			17,558	17,558
Private equity funds			38,757	38,757
Real estate		7,240	11,670	18,910
Total investments	138,658	45,364	123,197	307,219
Beneficial interest in trusts			13,379	13,379
Total assets at fair value	\$ 138,658	\$ 45,364	\$ 136,576	\$ 320,598
Liabilities				
Interest rate agreements		\$ (3,341)	\$ (3,380)	\$ (6,721)

The following table summarizes the changes in the Level 3 financial instruments carried at fair value during the year ended June 30, 2009 (in thousands):

	Hedge Funds and Alternative Investments				
	Equity Funds	Fixed Income Funds	Private Equity Funds	Real Estate	Total Investments
Fair value, July 1, 2008	\$ 103,729	\$ 27,681	\$ 33,953	\$ 12,956	\$ 178,319
Net realized and unrealized losses	(21,418)	(3,414)	(7,561)	(2,026)	(34,419)
Net purchases, sales, and settlements	(27,099)	(6,709)	12,365	740	(20,703)
Fair value, June 30, 2009	\$ 55,212	\$ 17,558	\$ 38,757	\$ 11,670	\$ 123,197
	Beneficial Interest in Trusts	Total Level 3 Assets		Interest Rate Agreements	Total Level 3 Liabilities
Fair value, July 1, 2008	\$ 17,154	\$ 195,473		\$ (1,819)	\$ (1,819)
Net realized and unrealized losses	(4,492)	(38,911)		(1,261)	(1,261)
Net purchases, sales, and settlements	717	(19,986)		(300)	(300)
Fair value, June 30, 2009	\$ 13,379	\$ 136,576		\$ (3,380)	\$ (3,380)

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Notes to Consolidated Financial Statements

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In the consolidated statement of activities for the year ended June 30, 2009, net realized and unrealized losses on Level 3 financial assets are included in nonoperating net realized and unrealized losses on investments and net realized and unrealized losses on Level 3 financial liabilities are included in nonoperating net realized and unrealized losses on interest rate agreements.

Cash and Cash Equivalents

For the purposes of reporting cash flows, the University considers all short-term highly liquid investments to be cash equivalents. Cash equivalents consist of time deposits and short-term investments with maturities at the date of purchase of ninety days or less, stated at cost, which approximates fair value. Certain balances meeting the definition of cash and cash equivalents are classified as investments as a result of the University's intent to segregate funds from cash available for current operations.

The University's banking activity, including cash and cash equivalents, is maintained with one regional bank and from time to time exceeds federal insurance limits. It is the University's policy to monitor the bank's financial strength on an ongoing basis.

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 fiscal year-end are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time 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. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions that are expected to be collected after one year are recorded at the present value of estimated future cash flows. The discount rates used range from approximately 3% to 8%. Amortization of the discount is recorded as additional contribution revenue in the applicable net asset class.

The carrying amount of contributions receivable approximates fair value as such amounts are recorded net of an allowance for uncollectibles and a discount to their present value. The allowance for uncollectible contributions receivable is based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

The University reports contributions of land, buildings, or equipment as unrestricted support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as unrestricted support provided the long-lived assets are placed in service in the same reporting period, otherwise, the contributions are reported as temporarily restricted support until the assets are acquired and placed in service and then, such amounts are reclassified to unrestricted net assets.

Deferred Financing Costs

Included in prepaid expenses and other assets are deferred financing costs that are being amortized over the life of the related bonds.

For the years ended June 30, 2009 and 2008, deferred financing costs, net totaled approximately \$1,977,000 and \$2,047,000, respectively. Amortization expense for the years ended June 30, 2009 and 2008 was approximately \$70,000 and \$82,000, respectively. During 2008, approximately \$1,567,000 of such costs were written off in connection with the extinguishment of certain of the University's debt. The estimated amortization expense for deferred financing costs for each of the next five years is approximately \$66,000.

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Investments

Investments are reported at fair value and are comprised of the assets of the University's endowment and similar funds, and split-interest agreements. Endowment funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and that only income be utilized. Funds functioning as endowment, also known as quasi-endowment funds, have been established by the Trustees for the same purposes as endowment funds. However, any portion of the funds functioning as endowment may be expended with the approval of the Trustees.

Assets of the endowment funds and similar funds are pooled on a market value basis with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of the quarterly period within which the transactions take place. Endowment income is distributed based on the number of units subscribed to at the end of each month. In addition, the University maintains separately invested funds as stipulated by donors.

Gains or losses on investments are reported in the consolidated statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income is recorded in unrestricted net assets unless its use is temporarily or permanently restricted by explicit donor stipulations.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost at the date of acquisition or, if received as a gift, at the estimated fair value at the date of the gift. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded. Expenditures for repairs and maintenance are charged to expense as incurred. Library books are expensed as incurred due to their short-term life and low cost per volume.

Depreciation expense is computed on a straight-line basis over the estimated useful lives using a half-year convention beginning in the year of acquisition or capitalization of construction in progress. Estimated useful lives are periodically reviewed and, when appropriate, changes are made prospectively. When certain events or changes in operating conditions occur, asset lives may be adjusted and an impairment assessment may be performed on the recoverability of the carrying amounts.

Useful lives are as follows:

Land improvements	10 to 20 years
Building and improvements	20 to 40 years
Equipment	3 to 10 years

Split-Interest Agreements

The University is a recipient of funds under perpetual trust and irrevocable split-interest agreements, the income on which may be restricted by the donor. Amounts held by third-party trustees in perpetuity for the benefit of the University are reported at their fair value. Under the terms of these agreements, the University has the irrevocable right to its share of the income earned on the trust assets. Amounts received under split-interest agreements, including charitable gift annuities, charitable lead trusts, charitable remainder trusts, and pooled income arrangements, may be invested by the University or third-party trustees, and at the end of each agreement's term are distributed either to the University or other beneficiaries. Annual distributions to beneficiaries may be for a specified dollar amount or a percentage of the trust's fair value. Upon receipt, gifts requiring the University or trustee to pay donors a specified periodic amount are recorded at fair value with corresponding estimated liabilities for future amounts payable to other beneficiaries, where applicable. The liabilities associated with these gifts are adjusted during the term of these gift instruments. The University is aware of certain split-interest

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arrangements in which it has been named as beneficiary and has adopted a policy that until such amounts are estimable and probable, such amounts are not recognized in the financial statements.

The present value of payments to beneficiaries under split-interest arrangements is calculated using discount rates in effect at the date of the gift; these rates range from approximately 2.4% to 11.6%.

Asset Retirement Obligations

An asset retirement obligation ("ARO") is a legal obligation associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the University records period-to-period changes in the ARO liability resulting from the passage of time or revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The University derecognizes ARO liabilities when the related obligations are settled.

Tax-Exempt Status

The University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Sponsored Research

Revenues associated with research and other contracts and grants at the University are recognized as related costs are incurred. Indirect cost recovery by the University is based on a predetermined rate.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

3. Accounts Receivable

Accounts receivable consist of the following at June 30, 2009 and 2008 (in thousands):

	2009	2008
Sponsored research	\$ 2,799	\$ 3,245
Student receivables	1,125	2,252
Other receivables	746	1,041
	<u>4,670</u>	<u>6,538</u>
Less: Allowance for doubtful accounts	(685)	(241)
	<u>\$ 3,985</u>	<u>\$ 6,297</u>

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4. Contributions Receivable

Unconditional promises are expected to be realized in the following periods at June 30, 2009 and 2008 (in thousands):

	2009	2008
In one year or less	\$ 6,813	\$ 3,208
Between one and five years	9,985	9,460
Greater than five years	<u>970</u>	<u>627</u>
	17,768	13,295
Less:		
Discount to present value	(1,393)	(1,335)
Allowance for doubtful contributions	<u>(994)</u>	<u>(645)</u>
	<u>\$ 15,381</u>	<u>\$ 11,315</u>

In addition, as of June 30, 2009 and 2008, the University has approximately \$3,084,000 and \$2,883,000, respectively, of cumulative conditional promises to give that are not recognized as assets in the accompanying consolidated statement of financial position.

5. Student Loans Receivable

Student loans receivable consist of the following at June 30, 2009 and 2008 (in thousands):

	2009	2008
Student loans	\$ 22,259	\$ 21,484
Other	<u>123</u>	<u>194</u>
	22,382	21,678
Less: Allowance for doubtful accounts	<u>(680)</u>	<u>(510)</u>
	<u>\$ 21,702</u>	<u>\$ 21,168</u>

Student loans receivable include amounts due from students under federally sponsored loan programs that are subject to significant restrictions.

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6. Investments

Investments at June 30, 2009 are as follows (comparative totals are included for 2008) (in thousands):

	2009			2008 Total
	Endowment & Similar Funds	Split-Interest Agreements	Total	
Cash and cash equivalents	\$ 14,465	\$ 180	\$ 14,645	\$ 13,412
Equity securities	90,054	9,171	99,225	139,126
Fixed income securities	47,497	6,265	53,762	55,902
Commodities	9,150		9,150	10,385
Hedge fund and alternative investments				
Equity funds	55,212		55,212	103,729
Fixed income funds	17,558		17,558	27,681
Private equity funds	38,757		38,757	33,953
Real estate	18,910		18,910	20,199
Total investments	<u>\$ 291,603</u>	<u>\$ 15,616</u>	<u>\$ 307,219</u>	<u>\$ 404,387</u>

Fair values of equity securities and fixed income securities are generally based on published market values. The University invests in hedge funds, private equity, and real estate investments through various limited partnerships and similar vehicles. Hedge funds utilize a variety of investment strategies incorporating marketable securities and, in some cases, derivative instruments, all of which are reported at estimated fair value by the fund managers. Private equity funds consist of long-term private investments and have been valued based on estimates provided by the general partners of the investment vehicles. Estimates of fair value may differ significantly from values that would have been used had a ready market for the investments existed. Real estate consists mainly of direct real estate holdings and investments in privately held entities and has been valued at management's estimates of fair value.

Endowment Income and Spending

In addition to current yield, the University has interpreted state law to allow for the utilization of capital appreciation on permanently restricted endowment funds unless explicit donor stipulations specify how net appreciation must be used. Accordingly, the University segregates capital appreciation between that which can be used for current operations and that which is attributable to permanently restricted endowment funds. In accordance with state law, current yield and capital appreciation attributed to permanently restricted endowment funds are considered temporarily restricted until appropriated for use, and the historic dollar value of such funds is considered permanently restricted.

Effective July 1, 2008, the University adopted FASB Staff Position SFAS 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 117-1"). FSP 117-1 requires enhanced disclosures for donor-restricted and board-designated endowment funds, including information regarding endowment fund net assets, spending policies and related investment policies.

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The University has adopted investment and spending policies for its endowment and similar funds that attempt to provide a predictable stream of funding for its programs. To satisfy its long-term rate-of-return objectives, the University relies on a total return approach in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest, dividends and net rental income). To achieve its long-term objectives within prudent risk parameters, the University targets a diversified asset allocation as follows:

<u>Asset Allocation Policy</u>	Target %
Domestic equity	20
International equity	17
Venture capital	8
Absolute return	15
Hedged equity	10
Fixed income	12
Real assets	18
Cash	0

The University's investment return for the year ended June 30, 2009, with comparative totals for 2008, is summarized as follows (in thousands):

	2009			Total	2008 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Investment income on endowment and similar funds	\$ 3,115	\$ 19	\$ 93	\$ 3,227	\$ 4,830
Net realized and unrealized losses on investments	(43,881)	(41,842)	(3,543)	(89,266)	(13,805)
Return on endowment and similar funds	(40,766)	(41,823)	(3,450)	(86,039)	(8,975)
Other investment income	3,255	316	51	3,622	3,976
Total return on investments	(37,511)	(41,507)	(3,399)	(82,417)	(4,999)
Investment return designated for current unrestricted operations	(14,351)	(7,505)	(144)	(22,000)	(20,300)
Investment return net of return utilized	\$ (51,862)	\$ (49,012)	\$ (3,543)	\$ (104,417)	\$ (25,299)

Investment income is net of investment management expenses of approximately \$1,020,000 and \$1,059,000 for the years ended June 30, 2009 and 2008, respectively.

The University observes a spending rule with respect to total return (interest, dividends and appreciation) on investments of the endowment and similar funds. Under the spending rule, the University appropriates 5.5% of its endowment and similar funds' average unit fair value for the previous three years, one year removed.

The spending rule distributions for fiscal years 2009 and 2008, respectively, were \$0.348 and \$0.312 per time weighted unit, comprised of \$0.091 and \$0.115 of income and \$0.257 and \$0.197 of distributions from current and accumulated net gains. At June 30, 2009 there were a total of 59,326,364 units in the pooled endowment and similar funds, each having a fair value of \$4.863. Of the total units, 28,283,131 were owned by endowment funds and 31,043,233 were owned by internally designated funds.

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A summary of the fair value per unit and the income per time-weighted unit for the pooled investments held as of June 30, 2009 and in each of the prior four years is as follows:

	Income Per Time Weighted Unit	Fair Value Per Unit
2009	\$ 0.091	\$ 4.863
2008	0.115	6.479
2007	0.035	6.876
2006	0.072	6.104
2005	0.039	5.720

To the extent that accumulated realized and unrealized losses are in excess of accumulated gains for permanently restricted endowment funds, they are reported as decreases in unrestricted net assets. As a result of market declines, the fair value of certain permanently restricted endowment funds is less than the historical dollar value of such funds ("underwater funds") by approximately \$5,445,000 and \$391,000 at June 30, 2009 and 2008, respectively, and have been offset by transfers from unrestricted net assets to temporarily restricted net assets in accordance with SFAS 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations". The University is under no legal obligation to fund the deficiency. In accordance with state law, appropriation on these funds has been limited to current yield until such time as the deficiency has been restored and the fair value of the fund exceeds the level required to be retained permanently.

Endowment and Similar Funds

The endowment and similar funds' net asset composition as of June 30, 2009 and the changes for the year then ended are as follows (in thousands):

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted Quasi-endowment	\$ 127,608	\$ 56,450	\$ 95,161	\$ 151,611
Total	<u>\$ 127,608</u>	<u>\$ 56,450</u>	<u>\$ 95,161</u>	<u>\$ 279,219</u>
Balance, July 1, 2008	\$ 184,272	\$ 96,121	\$ 87,740	\$ 368,133
Investment return:				
Investment income	5,278	19	93	5,390
Net depreciation realized and unrealized	(42,171)	(39,275)		(81,446)
Total investment return	<u>(36,893)</u>	<u>(39,256)</u>	93	<u>(76,056)</u>
Contributions	97	20	6,991	7,108
Appropriated for expenditure	(13,260)	(7,188)	(93)	(20,541)
Provision for underwater funds	(5,445)	5,445		-
Transfer of quasi-endowment funds	(1,308)	1,308		-
Other changes	145		430	575
Balance, June 30, 2009	<u>\$ 127,608</u>	<u>\$ 56,450</u>	<u>\$ 95,161</u>	<u>\$ 279,219</u>

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The endowment and similar funds' net asset composition as of June 30, 2008 and the changes for the year then ended are as follows (in thousands):

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted		\$ 96,121	\$ 87,740	\$ 183,861
Quasi-endowment	\$ 184,272			184,272
Total	<u>\$ 184,272</u>	<u>\$ 96,121</u>	<u>\$ 87,740</u>	<u>\$ 368,133</u>
Balance, July 1, 2007	\$ 195,787	\$ 107,045	\$ 79,909	\$ 382,741
Investment return:				
Investment income	6,649	36	83	6,768
Net depreciation				-
realized and unrealized	(6,286)	(5,554)		(11,840)
Total investment return	<u>363</u>	<u>(5,518)</u>	<u>83</u>	<u>(5,072)</u>
Contributions	615		7,501	8,116
Appropriated for expenditure	(12,766)	(5,413)	(83)	(18,262)
Other changes	<u>273</u>	<u>7</u>	<u>330</u>	<u>610</u>
Balance, June 30, 2008	<u>\$ 184,272</u>	<u>\$ 96,121</u>	<u>\$ 87,740</u>	<u>\$ 368,133</u>

Split-Interest Agreements

Investments include the following split-interest agreements at June 30, 2009 and 2008 (in thousands):

	2009	2008
Charitable gift annuities	\$ 6,232	\$ 8,201
Charitable remainder trusts	6,801	8,669
Pooled income funds	<u>2,583</u>	<u>2,764</u>
	<u>\$ 15,616</u>	<u>\$ 19,634</u>

7. Land, Buildings and Equipment

Land, buildings and equipment consist of the following at June 30, 2009 and 2008 (in thousands):

	2009	2008
Land and land improvements	\$ 15,939	\$ 12,391
Buildings	247,755	202,669
Equipment	<u>31,610</u>	<u>27,344</u>
	295,304	242,404
Less: Accumulated depreciation	<u>(121,137)</u>	<u>(108,647)</u>
	174,167	133,757
Construction-in-progress	<u>11,650</u>	<u>43,040</u>
	<u>\$ 185,817</u>	<u>\$ 176,797</u>

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Depreciation expense charged to operations was approximately \$12,490,000 and \$11,521,000 for the years ended June 30, 2009 and 2008, respectively. Net interest cost capitalized was approximately \$155,000 and \$951,000 for the years ended June 30, 2009 and 2008, respectively.

For the year ended June 30, 2008, the University recorded a change in its estimate of asset retirement costs that resulted in a loss of approximately \$1,433,000.

8. Bonds and Notes Payable

Bonds and notes payable consist of the following (in thousands) at June 30, 2009 and 2008:

Purpose and Definition	Maturity Date	Interest Rate %	Original Issue	Amount Due Within One Year	Balance, June 30, 2009	Balance, June 30, 2008
Bonds payable						
Housing and Urban Development 1969 Series C (1)	4/1/2019	3.0	\$ 1,160	\$ 35	\$ 387	\$ 422
Massachusetts Health and Educational Facilities Authority 2005 Series M-3B (2)	6/15/2010	Variable	8,000	1,394	1,394	2,817
Massachusetts Development Finance Agency 2007 Series (3)	9/1/2047	4.0-5.0	81,915	130	83,903	84,058
Massachusetts Development Finance Agency 2008 Series A & B (4)	9/1/2035	Variable	54,815	310	54,455	54,815
Uncollateralized notes						
Sovereign Bank	4/25/2010	7.0	4,500	1,650	1,650	1,875
Total bonds and notes payable				<u>\$ 3,519</u>	<u>\$ 141,789</u>	<u>\$ 143,987</u>

- (1) Collateralized by land, building and equipment known as Stoddard Residence Center and pledged net revenues from the operations of the dormitory.
- (2) The bonds, issued at par with no discount or premium, represent a general obligation of the University.
- (3) The bonds represent a general obligation of the University. The balances at June 30, 2009 and 2008 include a premium of approximately \$2,088,000 and \$2,143,000, respectively.
- (4) The bonds, issued at par with no discount or premium, represent a general obligation of the University.

In compliance with the University's various bond indentures, funds held under bond agreements at June 30, 2009 and 2008 include investments of approximately \$454,000 and \$8,668,000, respectively, held for construction and debt service reserves.

The fair value of the University's debt has been calculated by determining the net present value of future cash outlays using an interest rate based on the length of time to maturity. The rates were based upon market conditions as of June 30, 2009 and 2008 and the University's credit risk as of June 30, 2009. The estimated fair value at June 30, 2009 and 2008 is approximately \$137,298,000 and \$141,344,000, respectively.

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Scheduled aggregate principal repayments on bonds and notes payable for each of the next five fiscal years and thereafter are as follows (in thousands):

2010	\$ 3,519
2011	2,050
2012	2,220
2013	2,255
2014	3,480
Thereafter	<u>126,177</u>
Total cash payments	\$ 139,701
Premium	<u>2,088</u>
	<u>\$ 141,789</u>

In April 2008, the University borrowed \$54,815,000 in the form of Massachusetts Development Finance Agency ("MDFA") Variable Rate Demand Revenue Bonds Series 2008A (tax-exempt) and 2008B (federally taxable), (the "2008 Bonds"). The proceeds from the issues were used to refund the University's borrowings under the MDFA Revenue Bonds, Series 2005A (tax-exempt) and 2005B (federally taxable) Select Auction Variable Rate Securities (the "2005 Bonds"), and the MDFA, Revenue Bonds, Series 2003A Select Auction Variable Rate Securities (the "2003 Bonds"), and to pay the costs of issuance. The refunding resulted in a loss relating to the unamortized debt issuance costs of the 2005 and 2003 Bonds amounting to approximately \$1,209,000 that has been recorded in the accompanying consolidated statement of activities for the year ended June 30, 2008. The 2008 Bonds are payable in semiannual installments with principal payments ranging from \$360,000 to \$2,915,000, with a final maturity of September 1, 2035. Interest on the 2008 Bonds is at a variable rate which is reset on a weekly basis.

Payment of the principal of, the purchase price of, and interest on each series of the 2008 Bonds, when due, is collateralized by irrevocable direct pay letters of credit by TD Banknorth, N.A. (the "Letters of Credit") that expire in 2013. As more fully described in Note 9, the interest rate swap agreements entered into an integral part of the 2005 and 2003 Bonds remain in effect to economically hedge the interest rate risks associated with the 2008 Bonds. The Letters of Credit include financial covenants that require that the University maintain minimum expendable net assets to debt of at least 0.65 and a minimum long term credit rating of A3/A-.

The 2008 Bonds can bear interest at a daily, weekly or monthly variable rate mode or at a fixed rate mode. Bonds in the variable rate mode are subject to tender at the election of the bondholders. In the event that the University receives notice of any optional tender of its bonds, or if these bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will be obligated to purchase the bonds tendered by drawing on the Letters of Credit. Such funds drawn on the Letters of Credit must be repaid in full within 180 days or converted to a 5 year term loan with quarterly payments commencing in the 15th month following the conversion. In this event, principal amounts on the 2008 Bonds due over the next five years and thereafter, in thousands, would be \$0, \$5,445, \$10,891, \$10,891, \$10,891 and \$16,337.

In June 2007, the University borrowed \$81,915,000 in the form of MDFA Revenue Bonds, Worcester Polytechnic Institute, Series 2007, (the "2007 Bonds"). The 2007 Bonds are fixed rate bonds payable in semiannual installments with principal payments ranging from \$100,000 to \$3,105,000, and interest ranging from 4.0% to 5.0%. The final maturity is September 1, 2047.

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In anticipation of the delivery of the 2007 Bonds, the University entered into an actual rate rate-lock contract (the "Contract") to lock in its interest rate and the amount of net bond proceeds. The Contract was terminated and the University received a cash payment in June 2007 resulting in a realized gain of approximately \$2,809,000. The gain is included in deposits and deferred revenue and is being amortized over the life of the Series 2007 Bonds.

The University also has a \$25,000,000 bank revolving line of credit. The line of credit bears interest at LIBOR plus 0.95% per annum on outstanding amounts. There were no amounts outstanding at June 30, 2009 and 2008.

9. Interest Rate Agreements

The University has entered into several interest rate swap agreements used to economically hedge the interest rate risk associated with certain of its variable rate debt. The following summarizes the terms for each of these agreements as of June 30, 2009 (in thousands):

	Series 2008 A&B				Sovereign Bank
	Deutsche Bank	Barclays Bank PLC	Barclays Bank PLC		
Trade/effective date	Nov. 3, 2008	Nov. 3, 2008	Nov. 3, 2008		May 4, 2005
Initial notional amount	\$14,100	\$34,200	\$5,775		\$2,587
Termination date	Oct. 1, 2033	Sept. 1, 2035	Sept. 1, 2016		Apr. 25, 2010
Rate paid by University	4.650%	3.714%	4.631%		4.770%
Rate paid by Counterparty	71% of one-month LIBOR	67% of one-month LIBOR when LIBOR is \geq 4.00%	one-month LIBOR		one-month LIBOR + 35 bps
		SIFMA Municipal Swap Index when LIBOR is < 4.00%			
<u>Fair Value Asset (Liability)</u>					<u>Total, net</u>
June 30, 2009	(\$2,826)	(\$3,380)	(\$464)	(\$51)	(\$6,721)
June 30, 2008					(\$4,021)

The net unrealized loss that was recognized for the interest rate swap agreements for the year ended June 30, 2009, was approximately \$2,242,000 and has been recorded in net realized and unrealized losses on interest rate agreements on the accompanying consolidated statement of activities. At June 30, 2008, the fair value liability for interest rate swap agreements totaled \$4,021,000 and the net unrealized loss recognized in the accompanying consolidated statement of activities for the year ended was approximately \$3,620,000.

The counterparties to the Series 2008A and B interest rate swap agreements are Barclays Bank PLC ("Barclays") and Deutsche Bank AG ("Deutsche"). These counterparties replaced the counterparty to the interest rate swap agreements held at June 30, 2008, Lehman Brothers Special Financing, Inc. ("LBSF"). The Lehman Brothers Holdings, Inc. bankruptcy filing in October 2008 constituted an event of default as defined in the International Swaps and Derivatives Association, Inc. Master Agreement between the University and LBSF. As a result, in November 2008, the University paid \$2,795,000 to terminate the interest rate agreements. Barclays and Deutsche paid the University \$3,253,600 to enter into the interest rate agreements as the new counterparties. The notional amounts, termination dates, fixed rates paid by the University and the variable rates received by the University are the same as the terms of the terminated swaps as of the replacement date. The interest rate swap agreements under

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Barclays and Deutsche contain provisions requiring collateral postings should the fair value liability of the University exceed certain amounts based on the University's long term credit ratings.

The collateral posting provision for the agreement with Deutsche is triggered should the fair value liability exceed \$40 million and the University's long term credit rating remains at A1/A+. The collateral posting provision for the two agreements with Barclays are triggered should the combined fair value liability exceed \$40 million and the University's long term credit rating declines to A2/A. At its current ratings level of A1/A+, no amount of fair value liability will trigger a posting requirement. The provisions with both counterparties provide that the liability threshold decreases if the University's long term credit ratings decline. At June 30, 2009, the University is not required to post collateral to its counterparties.

10. Pension Plan

The University participates in a defined contribution retirement plan for substantially all of its employees. Employees may elect to invest in various accounts with the Teachers' Insurance and Annuity Association and College Retirement Equities Fund ("TIAA-CREF"), Fidelity Investments, or a combination of both. Contributions were approximately \$4,776,000 and \$4,654,000 for the years ended June 30, 2009 and 2008, respectively. Contributions are based upon a percentage of the employee's compensation.

11. Net Assets

Net assets consist of the following at June 30, 2009 and 2008 (in thousands):

Permanently restricted net assets:

	2009	2008
Endowment funds - original principal	\$ 95,161	\$ 87,740
Split-interest agreements and perpetual trusts	15,143	18,047
Student loan funds	3,031	2,889
	<u>\$ 113,335</u>	<u>\$ 108,676</u>

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Temporarily restricted net assets:

	2009	2008
Gifts and other unexpended revenues		
Instruction, research, and institutional support	\$ 4,535	\$ 3,648
Acquisition of building and equipment	13,402	11,699
	<u>17,937</u>	<u>15,347</u>
Endowment funds - unspent income and appreciation		
Scholarship support	31,208	53,266
Faculty support	8,343	13,929
Program support	16,899	28,926
	<u>56,450</u>	<u>96,121</u>
Split-interest agreements	4,926	6,401
	<u>\$ 79,313</u>	<u>\$ 117,869</u>

Unrestricted net assets designated for the following specific purposes:

	2009	2008
Long-term investment (quasi-endowment funds)	\$ 127,608	\$ 184,272
Net investment in plant facilities	7,004	13,471
Student loan funds	10,369	9,791
Undesignated	30,821	26,503
	<u>\$ 175,802</u>	<u>\$ 234,037</u>

12. Expenses by Functional Category

Following are expenses categorized by function (in thousands):

	2009	2008
Instruction and department research	\$ 62,069	\$ 57,149
Sponsored research	15,819	15,424
External relations	6,697	6,588
Institution and academic support	35,504	33,024
Student services	12,224	11,299
Auxiliary enterprises	16,939	16,225
	<u>\$ 149,252</u>	<u>\$ 139,709</u>

Depreciation, maintenance, interest and other expenses have been allocated to the various functions. Methods in allocating these expenses include actual expenses incurred and percentage of square footage for each functional area.

External relations expenditures include approximately \$3,792,000 and \$4,362,000 of fund-raising expenses for the years ended June 30, 2009 and 2008, respectively.

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13. Related Parties

Newgate Properties, LLC (“Newgate”)

Newgate owns and operates an approximately 124,600 square foot life sciences and bioengineering facility located in the Gateway Park area of Worcester. The University occupies approximately 90% of the new facility with the remaining 10% being leased to other entities. The University is the sole member of Newgate and has consolidated its accounts in the accompanying consolidated financial statements.

75 Grove Street, LLC (“Grove Street”)

In 2008, the University purchased a vacant parcel of land for future development purposes from Gateway Park, LLC located on 75 Grove Street in Worcester. The University is the sole member of Grove Street and has consolidated its accounts in the accompanying consolidated financial statements.

Gateway Park, LLC (“Gateway”)

The University and Worcester Business Development Corporation (“WBDC”) jointly formed Gateway to purchase and develop land located in the Gateway Park area of Worcester. The University has a 50% interest and accounts for its investment using the equity method.

Gateway has \$3,650,000 in mortgage notes payable with Flagship Bank and Trust for which the University has entered into a limited guarantee. The liability of the University under this guarantee is limited to 50% of the obligation as defined in the agreement.

New Garden Park, Inc. (“New Garden Park”)

New Garden Park is a Massachusetts not-for-profit corporation that owns and manages a parking facility located in the Gateway Park area of Worcester and whose members are the University and the WBDC. The University has an uncollateralized note receivable from New Garden Park with interest accruing at 7.0%. For the years ended June 30, 2009 and 2008, amounts due total approximately \$5,244,000 and \$4,778,000, respectively. The University has an interest in New Garden Park and accounts for its investment using the equity method.

New Garden Park has a \$348,000 loan obligation with the Massachusetts Development Finance Agency which the University has fully guaranteed.

Prescott Holdings, LLC (“Prescott Holdings”)

Prescott Holdings was formed to develop land in the Gateway Park area of Worcester. The University has a 12.5% interest and accounts for its investment at cost.

Prescott Holdings has \$8,006,000 in outstanding mortgage and construction notes payable with TD Banknorth, N.A. for which the University entered into limited guarantees. As of June 30, 2009, the amount guaranteed by the University is approximately \$1,001,000.

Alumni Association of Worcester Polytechnic Institute (“Alumni Association”)

The Alumni Association, a separate 501(c)(3) organization, invests the majority of its funds in the University’s endowment. At June 30, 2009 and 2008, funds held for others in the consolidated statements of financial position includes Alumni Association assets of \$1,941,000 and \$2,382,000, respectively.

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14. Commitments and Contingencies

Operating Leases

The University is obligated under noncancelable operating leases for office space, storage, and parking facilities.

The future minimum rental commitments under these agreements as of June 30, 2009, are approximately as follows (in thousands):

2010	\$	489
2011		526
2012		425
2013		404
2014		441
Thereafter		3,123
	\$	<u>5,408</u>

Rental expense was approximately \$519,000 and 478,000 for the years ended June 30, 2009 and 2008, respectively.

Guarantees

In addition to the amounts guaranteed by the University as disclosed in Note 13, the University has guaranteed commercial loans with an original principal amount of \$2,596,000 to five fraternities. These loans are collateralized by real property owned by the fraternities.

Other Commitments and Contingencies

For the year ended June 30, 2009, the University had outstanding commitments under a guaranteed maximum price construction contract for the renovation of academic classrooms and laboratories in Goddard Hall in the amount of approximately \$1,844,000. Funds to satisfy this commitment are included in cash and cash equivalents at June 30, 2009.

For the year ended June 30, 2008, the University had outstanding commitments under a guaranteed maximum price construction contract for the construction of a new residence hall and parking facility in the amount of approximately \$5,165,000. Funds to satisfy this commitment were included in funds held under bond agreements at June 30, 2008.

The University is obligated under certain limited partnership agreements and other alternative investment arrangements to advance additional funding periodically up to specified levels. At June 30, 2009, the University had unfunded commitments of approximately \$15,210,000 that can be called through 2018. These commitments will be funded from the University's existing cash and investments.

As disclosed in Note 9, in November 2008, the University terminated and settled its interest rate swap agreements with Lehman Brothers Special Financing, Inc. All such settlements are currently being reviewed by the Federal Bankruptcy Court. Management does not expect an unfavorable outcome.

In May 2009, the University entered into a payment in lieu of taxes ("PILOT") agreement with the City of Worcester. The 25 year agreement provides for the University to pay approximately \$450,000 annually in voluntary payments. The agreement calls for the City of Worcester to use these amounts to support the operations of the Worcester Public Library and for the implementation of the master plan to renovate Institute Park.

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The University's sponsored research program and indirect cost recovery are subject to audit by the respective sponsoring federal agency as provided for in federal sponsored research regulations. Management believes that any such audit will not have a material adverse effect, individually or in the aggregate, upon the University's consolidated statements of financial position, or the related consolidated statements of activities, or cash flows.

The University is also involved in various legal actions arising in the normal course of its activities. Although the ultimate outcome is not determinable at this time, management after taking into consideration advice of legal counsel believes that the resolution of these pending matters will not have a material adverse effect, individually or in the aggregate, upon the University's consolidated statements of financial position, or the related consolidated statements of activities, or cash flows.

15. Current Developments and Subsequent Events

In May 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 164, "Not-for Profit Entities: Mergers and Acquisitions", which establishes principles and requirements for how a not-for-profit determines whether a combination is a merger or an acquisition; applies the carryover method in accounting for a merger; applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer; and, determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. The statement also discontinues amortization on goodwill and intangibles recognized in an acquisition. This statement is effective for mergers occurring on or after December 15, 2009, and acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009.

On July 2, 2009, Massachusetts enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA provides guidance for investment management; enumerates guidelines in prudent investing; and, eliminates the concept of "historic dollar value" for donor-restricted endowments. The University's management is currently assessing the potential impact that adoption of UPMIFA will have on the consolidated financial statements.

The University is in negotiations with the WBDC to acquire its interest in Gateway and New Garden Park for \$2,000,000 to be paid over a period of five years and \$600,000, \$200,000 to be paid annually for three years, to retain the services of the WBDC as consultants. The acquisition will result in the University being the sole member of Gateway and the parking facility and other parcels owned by New Garden Park and the University will become the sole guarantor of their loan obligations. Upon completion, the University's consolidated financial statements will include the accounts of Gateway and New Garden Park and these investments will no longer be accounted for using the equity method. Had the transaction occurred prior to June 30, 2009, the University's assets would have been increased by approximately \$10,800,000 and notes payable would have been increased by \$9,800,000.

The University adopted Statement of Financial Accounting Standards No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Accordingly, management has evaluated subsequent events for the period after June 30, 2009 through September 23, 2009, the date the financial statements were issued.