Worcester Polytechnic Institute

Consolidated Financial Statements
June 30, 2010 and 2009

Worcester Polytechnic Institute
Index
June 30, 2010 and 2009

PRICEWATERHOUSECOOPERS

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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, 2010 and 2009, 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

November 1, 2010

Worcester Polytechnic Institute
Consolidated Statements of Financial Position
June 30, 2010 and 2009 (in thousands)

	2010	2009
Assets		
Cash and cash equivalents	$ 19,854	$ 11,141
Accounts receivable, net	4,789	3,985
Contributions receivable, net	17,570	15,381
Funds held under bond agreements	52,993	454
Prepaid expenses and other assets	4,918	4,607
Student loans receivable, net	22,551	21,702
Beneficial interest in trusts	16,074	13,379
Investments	333,532	307,219
Land, buildings and equipment, net	191,305	185,817
Total assets	$ 663,586	$ 563,685
Liabilities		
Accounts payable and accrued liabilities	$ 17,931	$ 14,781
Deposits and deferred revenue	7,879	7,323
Split-interest agreements	9,532	10,045
Funds held for others	2,857	2,747
Asset retirement obligations	5,049	5,037
Refundable government loan funds	6,792	6,792
Bonds and notes payable	204,450	141,789
Interest rate agreements	8,882	6,721
Total liabilities	263,372	195,235
Net assets		
Unrestricted	197,122	175,802
Temporarily restricted	78,613	79,313
Permanently restricted	124,479	113,335
Total net assets	400,214	368,450
Total liabilities and net assets	$ 663,586	$ 563,685

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

Worcester Polytechnic Institute
Consolidated Statement of Activities
Year Ended June 30, 2010 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	$ 139,783	$ -	$ -	$ 139,783
Less: Unrestricted student aid	41,975	-		41,975
Endowed scholarships	5,763	-	-	5,763
Externally funded student aid	4,973	-	-	4,973
Total student aid	52,711	-	-	52,711
Net tuition and fees	87,072	-	-	87,072
Other educational activities	9,578			9,578
Contributions	1,958	1,260		3,218
Contract and exchange transactions	22,382			22,382
Investment income on endowment and similar funds	2,246	18	93	2,357
Net realized gains on endowment used for operations	8,465	7,770		16,235
Other investment income	3,011	242	47	3,300
Sales and services of auxiliary enterprises	18,084			18,084
Other	2,082			2,082
Total revenues	154,878	9,290	140	164,308
Net assets released from restriction	18,573	(18,573)	-	-
Total revenues and other support	173,451	(9,283)	140	164,308
Operating expenses				
Instruction and department research	58,384	-	-	58,384
Sponsored research and other sponsored programs	14,246	-	-	14,246
External relations	6,718	-	-	6,718
Institution and academic support	32,520	-	-	32,520
Student services	9,966	-	-	9,966
Operation and maintenance of plant	24,925	-	-	24,925
Auxiliary enterprises	8,139	-	-	8,139
Total operating expenses	154,898	-	-	154,898
Change in net assets from operating activities	18,553	(9,283)	140	9,410
Nonoperating				
Net realized and unrealized gains on investments	14,663	13,426	128	28,217
Net realized gains on endowment used for operations	(8,465)	(7,770)	-	(16,235)
Provision for underwater funds	728	(728)	-	-
Net unrealized gains on beneficial interest in trusts	-	203	2,385	2,588
Change in value of split-interest agreements	54	22	-	76
Contributions	-	3,430	8,491	11,921
Net realized and unrealized losses on interest rate agreements	(4,213)			(4,213)
Change in net assets from nonoperating activities	2,767	8,583	11,004	22,354
Total change in net assets	21,320	(700)	11,144	31,764
Net assets, beginning of year	175,802	79,313	113,335	368,450
Net assets, end of year	$ 197,122	$ 78,613	$ 124,479	$ 400,214

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)	(41,464)	-	(85,345)
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	-	-
Net unrealized losses on beneficial interest in trusts	-	(949)	(3,543)	(4,492)
Change in value of split-interest agreements	(521)	1,351	-	830
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 Statements of Cash Flows
Years Ended June 30, 2010 and 2009 (in thousands)

	2010	2009
Cash flows from operating activities		
Change in net assets	$ 31,764	$ (92,132)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation, amortization, and accretion	13,791	12,696
Provision for uncollectible receivables	(185)	1,021
Net realized and unrealized (gains) losses on investments	(30,805)	89,837
Net unrealized loss on interest rate agreements	4,213	2,772
Contributions other than cash	(745)	(959)
Contributions restricted for long-term investment	(11,084)	(8,864)
Termination of interest rate agreements	-	(2,795)
Changes in assets and liabilities:		
Accounts receivable	(739)	1,868
Contributions receivable	2,532	1,024
Prepaid expenses and other assets	273	(86)
Accounts payable and accrued liabilities	865	(526)
Deposits and deferred revenue	626	75
Asset retirement obligations	(97)	(545)
Split-interest agreements	(1,026)	(1,719)
Funds held for others	36	(750)
Total adjustments	(22,345)	93,049
Net cash provided by operating activities	9,419	917
Cash flows from investing activities		
Proceeds from sales and maturities of investments	81,978	76,167
Purchase of investments	(69,269)	(64,114)
Purchase of land, buildings, and equipment	(16,124)	(24,351)
Proceeds from bonds deposited with trustees	(56,074)	-
Use of funds held under bond agreements	3,535	8,214
Disbursement of loans to students	(3,947)	(3,740)
Repayment of loans from students	3,038	3,036
Net cash used in investing activities	(56,863)	(4,788)
Cash flows from financing activities		
Contributions restricted for long-term investment	6,543	3,367
Deferred financing costs	(604)	-
Proceeds from interest rate swap agreements	-	3,254
Realized loss on interest rate agreements	(2,068)	(531)
Proceeds from long-term debt	63,931	-
Repayment of long-term debt	(11,645)	(2,143)
Net cash provided by financing activities	56,157	3,947
Net increase in cash and cash equivalents	8,713	76
Cash and cash equivalent at beginning of year	11,141	11,065
Cash and cash equivalents at end of year	$ 19,854	$ 11,141
Supplemental disclosures of cash flow information		
Interest paid	$ 6,304	$ 6,726
Gifts-in-kind	480	469
Purchases of buildings and equipment included in accounts payable	3,888	2,656
Increase in investment funded through debt	7,862	-
Debt financed acquistion (see Note 13)	1,766	-
Leased equipment	803	-

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

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 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 as follows.

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.

Gateway Park, LLC ("Gateway")
Gateway owns land located in the Gateway Park area of Worcester. On March 26, 2010, the University became the sole member of Gateway and has consolidated its accounts in the accompanying consolidated financial statements for the year ended June 30, 2010 (see Note 13).

Washburn Park, Inc. ("Washburn")
Washburn is a not-for-profit corporation created on March 26, 2010 to own and manage a parking garage located in the Gateway Park area of Worcester that was previously owned and managed by New Garden Park, Inc. ("New Garden Park") (see Note 13).

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 at 75 Grove Street in Worcester.

Intercompany accounts and transactions have been eliminated.

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

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

The University uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. 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.

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.

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, 2010 and 2009 as follows (in thousands):

	2010			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Cash and cash equivalents	$ 3,944	$ -	$ -	$ 3,944
Equity securities	99,459	12,125	-	111,584
Fixed income securities	27,342	12,691	-	40,033
Commodities	5,910	4,392	-	10,302
Alternative investments				
Equity funds	-	-	80,889	80,889
Fixed income funds	-	-	21,861	21,861
Private equity funds	-	-	36,414	36,414
Real estate	-	8,052	20,453	28,505
Total investments	136,655	37,260	159,617	333,532
Beneficial interest in trusts	-	-	16,074	16,074
Total assets at fair value	$ 136,655	$ 37,260	$ 175,691	$ 349,606
Liabilities				
Interest rate agreements	$ -	$ (4,246)	$ (4,636)	$ (8,882)

	2009			
Assets	**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
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 years ended June 30, 2010 and 2009 (in thousands):

	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
Net realized and unrealized gains (losses)	6,123	4,707	4,350	(1,924)	13,256
Purchases	32,000	-	2,551	11,107	45,658
Sales and settlements	(12,446)	(404)	(9,244)	-	(22,094)
Transfers	-	-	-	(400)	(400)
Fair value, June 30, 2010	$ 80,889	$ 21,861	$ 36,414	$ 20,453	$ 159,617

	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)
Net realized and unrealized gains (losses)	2,587	15,843	(1,256)	(1,256)
Purchases	126	45,784	-	-
Sales and settlements	(18)	(22,112)	-	-
Transfers	-	(400)	-	-
Fair value, June 30, 2010	$ 16,074	$ 175,691	$ (4,636)	$ (4,636)

In the consolidated statement of activities for the years ended June 30, 2010 and 2009, net realized and unrealized gains and losses on Level 3 financial assets are included in nonoperating net realized and unrealized gains and losses on investments and net unrealized gains and losses on beneficial interest in trusts. Net realized and unrealized losses on Level 3 financial liabilities are included in nonoperating net realized and unrealized losses on interest rate agreements.

For the year ended June 30, 2010, real estate valued at $400,000 was transferred to Level 2 from Level 3 as the University has received an offer to purchase. There were no transfers between Level 1 and Level 2 investments.

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 1.45% 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, 2010 and 2009, deferred financing costs, net totaled approximately $2,502,000 and $1,977,000, respectively. Amortization expense for the years ended June 30, 2010 and 2009 was approximately $71,000 and $70,000, respectively. The estimated amortization expense for deferred financing costs for the next five years is approximately $57,000 annually for fiscal years 2011 and 2012 and $74,000 annually for fiscal years 2013 through 2015.

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 Board of 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 Board of Trustees.

Assets of the endowment 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
Buildings 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 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 a tax-exempt organization as described in Section 501 (c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes pursuant to Section 501 (a) of the 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, 2010 and 2009 (in thousands):

	2010	2009
Sponsored research	$ 2,470	$ 2,799
Student receivables	2,298	1,125
Other receivables	641	746
	5,409	4,670
Less: Allowance for doubtful accounts	(620)	(685)
	$ 4,789	$ 3,985

4. Contributions Receivable

Unconditional promises are expected to be realized in the following periods at June 30, 2010 and 2009 (in thousands):

	2010	2009
In one year or less	$ 9,092	$ 6,813
Between one and five years	9,802	9,985
Greater than five years	542	970
	19,436	17,768
Less:		
Discount to present value	(1,052)	(1,393)
Allowance for doubtful contributions	(814)	(994)
	$ 17,570	$ 15,381

As of June 30, 2010 and 2009, the University has approximately $7,998,000 and $3,084,000, 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, 2010 and 2009 (in thousands):

	2010	2009
Student loans	$ 23,186	$ 22,259
Other	105	123
	23,291	22,382
Less: Allowance for doubtful accounts	(740)	(680)
	$ 22,551	$ 21,702

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

6. Investments

Investments at June 30, 2010 are as follows (comparative totals are included for 2009) (in thousands):

	2010			2009
	Endowment and Similar Funds	Split-Interest Agreements	Total	Total
Cash and cash equivalents	$ 3,735	$ 209	$ 3,944	$ 14,645
Equity securities	102,116	9,468	111,584	99,225
Fixed income securities	33,241	6,792	40,033	53,762
Commodities	10,302	-	10,302	9,150
Alternative investments				
Equity funds	80,889	-	80,889	55,212
Fixed income funds	21,861	-	21,861	17,558
Private equity funds	36,414	-	36,414	38,757
Real estate	28,505	-	28,505	18,910
Total investments	$ 317,063	$ 16,469	$ 333,532	$ 307,219

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. The University has utilized the net asset value ("NAV") provided by the fund managers or general partners in valuing such investments. 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.

The following table summarizes key provisions for the University's alternative investments as of June 30, 2010:

	Strategy	NAV of Funds	Number of Funds	Remaining Life	Amount of Unfunded Commitments	Timing to Draw Commitments	Redemption Terms	Redemption Restrictions	Redemption Restrictions in Place at Year End
Absolute Return – Market Neutral	Global equity and fixed income funds in market neutral strategies	$ 80,552	10	NA	$ --	NA	Ranges between quarterly redemption with 65 to 90 days notice to annual redemption with 45 days notice.	2 funds have lock up provisions of up to 3 years and limits on redemption of 1/3 annually. 1 fund has a lock up provision of 2 years. 2 funds have lock up provisions of 1 year. Illiquid side pockets exist for 3 of the funds.	2 funds have 1 year lock up provisions expiring Jan. 1, 2011. 1 fund has a 2 year lockup provision expiring in 2012.
Private Equity	Venture capital and buyout, in the U.S. and international	29,180	22	1 to 10 ½ years	8,077	1 to 10 years	Private equity structure with no ability to be redeemed.	NR	NR
Directional Hedge	Global long/short equity funds	29,100	4	NA	--	NA	Quarterly redemption with 30 to 60 days notice.	2 funds have lock up provisions of up to 1 year. 1 fund has been redeemed and illiquid side pockets exist for 1 of the funds.	Redemption restrictions have been met at year end.
Real Estate	U.S. real estate	1,302	1	7 years	4,075	1 to 7 years	Private equity structure with no ability to redeem.	NR	NR
Total		$140,134	37		$ 12,152				

NA = not applicable
NR = The University cannot redeem these investments.

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. For financial reporting purposes, 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.

On July 2, 2009, Massachusetts enacted its Uniform Prudent Management of Institutional Funds Act ("UPMIFA") statute. 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 adopted UPMIFA during the year ended June 30, 2010 and has not limited appropriation of underwater funds to current yield. Appropriation on underwater funds in years prior to adoption had been limited to current yield until such time as the deficiency had been restored and the fair value of the fund exceeded the level required to be retained permanently.

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:

Asset Allocation Policy	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, 2010, with comparative totals for 2009, is summarized as follows (in thousands):

	2010				2009
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Total**
Investment income on endowment and similar funds	$ 2,246	$ 18	$ 93	$ 2,357	$ 3,227
Net realized and unrealized gains (losses) on investments	14,663	13,426	128	28,217	(85,345)
Return on endowment and similar funds	16,909	13,444	221	30,574	(82,118)
Other investment income	3,011	242	47	3,300	3,622
Total return on investments	19,920	13,686	268	33,874	(78,496)
Investment return designated for current unrestricted operations	(13,722)	(8,030)	(140)	(21,892)	(22,000)
Investment return net of return utilized	$ 6,198	$ 5,656	$ 128	$ 11,982	$ (100,496)

Investment income is net of investment management fees of approximately $945,000 and $1,020,000 for the years ended June 30, 2010 and 2009, 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 appropriated 5.4% and 5.5% of its endowment and similar funds' average unit fair value for the previous three years, one year removed, for the years ended June 30, 2010 and 2009, respectively.

The spending rule distributions for fiscal years 2010 and 2009 were $0.348 per time weighted unit, comprised of, respectively, $0.075 and $0.091 of income and $0.273 and $0.257 of distributions from current and accumulated net gains. At June 30, 2010 there were a total of 60,507,989 units in the pooled endowment and similar funds, each having a fair value of $5.064. Of the total units, 29,310,075 were owned by endowment funds and 31,197,914 were owned by internally designated funds.

A summary of the fair value per unit and the income per time-weighted unit for the pooled investments held as of June 30, 2010 and in each of the prior four years is as follows:

	Income Per Time-Weighted Unit	Fair Value Per Unit
2010	$ 0.075	$ 5.064
2009	0.091	4.863
2008	0.115	6.479
2007	0.035	6.876
2006	0.072	6.104

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 historic dollar value of such funds ("underwater funds") by approximately $4,717,000 and $5,445,000 at June 30, 2010 and 2009, respectively, and have been offset by transfers from unrestricted net assets to temporarily restricted net assets. The University is under no legal obligation to fund the deficiency.

Endowment and Similar Funds

The endowment and similar funds' net asset composition as of June 30, 2010 and 2009 and the changes for the years then ended are as follows (in thousands):

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 60,913	$ 103,637	$ 164,550
Quasi-endowment	134,268	-	-	134,268
Total	$ 134,268	$ 60,913	$ 103,637	$ 298,818
Balance, July 1, 2009	$ 127,608	$ 56,450	$ 95,161	$ 279,219
Investment return:				
Investment income	4,502	18	-	4,520
Net appreciation realized and unrealized	13,943	12,954	128	27,025
Total investment return	18,445	12,972	128	31,545
Contributions	597	28	8,348	8,973
Appropriated for expenditure	(12,966)	(7,789)	-	(20,755)
Provision for underwater funds	728	(728)	-	-
Other changes	(144)	(20)	-	(164)
Balance, June 30, 2010	$ 134,268	$ 60,913	$ 103,637	$ 298,818

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 56,450	$ 95,161	$ 151,611
Quasi-endowment	127,608	-	-	127,608
Total	$ 127,608	$ 56,450	$ 95,161	$ 279,219
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	(36,893)	(39,256)	93	(76,056)
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	$ 127,608	$ 56,450	$ 95,161	$ 279,219

Split-Interest Agreements

Investments include the following split-interest agreements at June 30, 2010 and 2009 (in thousands):

	2010	2009
Charitable gift annuities	$ 6,657	$ 6,232
Charitable remainder trusts	7,382	6,801
Pooled income funds	2,430	2,583
	$ 16,469	$ 15,616

7. Land, Buildings and Equipment

Land, buildings and equipment consist of the following at June 30, 2010 and 2009 (in thousands):

	2010	2009
Land and land improvements	$ 15,939	$ 15,939
Buildings	261,108	247,755
Equipment	36,392	31,610
	313,439	295,304
Less: Accumulated depreciation	(135,569)	(121,137)
	177,870	174,167
Construction-in-progress	13,435	11,650
	$ 191,305	$ 185,817

Depreciation expense charged to operations was approximately $13,759,000 and $12,490,000 for the years ended June 30, 2010 and 2009, respectively. Net interest cost capitalized was approximately $1,163,000 and $155,000 for the years ended June 30, 2010 and 2009, respectively.

8. Bonds and Notes Payable

Bonds and notes payable consist of the following (in thousands) at June 30, 2010 and 2009:

Purpose and Definition	Maturity Date	Interest Rate %	Original Issue	Amount Due Within One Year	Balance, June 30, 2010	Balance, June 30, 2009
Bonds payable						
Housing and Urban Development 1969 Series C (1)	4/1/2019	3.0	$ 1,160	$ 35	$ 352	$ 387
Massachusetts Health and Educational Facilities Authority 2005 Series M-3B (2)	6/15/2010	Variable	8,000	-	-	1,394
Massachusetts Development Finance Agency 2007 Series (3)	9/1/2047	4.0-5.0	81,915	1,655	83,718	83,903
Massachusetts Development Finance Agency 2008 Series A & B (2)	9/1/2035	Variable	54,815	360	54,145	54,455
Massachusetts Development Finance Agency 2010 Series (4)	9/1/2045	4.5-5.0	56,000	-	56,073	-
Uncollateralized notes						
Sovereign Bank	4/25/2010	7.0	4,500	-	-	1,650
TD Bank Note A	6/8/2015	4.69	3,656	114	3,656	-
TD Bank Note B	6/8/2017	5.35	4,201	122	4,201	-
Worcester Business Development Corp.	9/1/2014	5.0	1,766	332	1,502	-
Capital lease obligations	Various	Various		281	803	-
Total bonds and notes payable				$ 2,899	$ 204,450	$ 141,789

(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, 2010 and 2009 include a premium of approximately $2,033,000 and $2,088,000, respectively.

(4) The bonds represent a general obligation of the University. The balance at June 30, 2010 includes a premium of approximately $73,000.

In compliance with the University's various bond indentures, funds held under bond agreements at June 30, 2010 and 2009 include investments of approximately $52,993,000 and $454,000, 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, 2010 and 2009 and the University's credit risk as of June 30, 2010. The estimated fair value at June 30, 2010 and 2009 is approximately $213,822,000 and $137,298,000, respectively.

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

2011	$	2,899
2012		3,044
2013		3,038
2014		4,243
2015		7,107
Thereafter		182,013
Total cash payments	$	202,344
Premium		2,106
	$	204,450

In June 2010, the University borrowed $7,857,000 in the form of two uncollateralized notes payable to TD Bank. The proceeds were used to refinance the debt assumed for the acquisition of the remaining interest in Gateway and New Garden Park (see Note 13). The borrowings consist of two notes payable with balloon payments due in 2015 and 2017, respectively. Monthly installments of principal and interest are paid based on a 20 year amortization.

In January 2010, the University borrowed $56,000,000 in the form of Massachusetts Development Finance Agency ("MDFA") Revenue Bond Series 2010 (the "2010 Bonds"). The proceeds from the issue will be used to finance the construction, furnishing and equipping of an approximately 140,000 square foot sports and recreation facility and other renovations, repairs and improvements to campus facilities. The 2010 Bonds are fixed rate bonds payable in annual installments with principal payments ranging from $915,000 to $6,990,000 beginning September 1, 2034, and interest ranging from 4.5% to 5.0%. The final maturity is September 1, 2045.

In April 2008, the University borrowed $54,815,000 in the form of 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 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. As more fully described in Note 9, the interest rate swap agreements entered into as an integral part of the 2005 and 2003 Bonds remain in effect to economically hedge the interest rate risks associated with the 2008 Bonds.

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 Bank that expire in 2013. 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. If this were to occur, principal amounts on the 2008 Bonds due over the next five years and thereafter, in thousands, would be $0, $5,415, $10,829, $10,829, $10,829 and $16,243.

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.

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, 2010 and 2009.

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, 2010 (in thousands):

	Series 2008 A&B				
	Deutsche Bank	**Barclays Bank PLC**	**Barclays Bank PLC**	**Sovereign Bank**	
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 > 4.00% SIFMA Municipal Swap Index when LIBOR is < 4.00%	one-month LIBOR	one-month LIBOR + 35 bps	
Fair Value Asset (Liability)					Total, net
June 30, 2010	($3,606)	($4,636)	($640)	$ -	($8,882)
June 30, 2009	($2,826)	($3,380)	($464)	($51)	($6,721)

The net unrealized loss that was recognized for the interest rate swap agreements for the year ended June 30, 2010, was approximately $2,161,000 and has been recorded in net realized and unrealized losses on interest rate agreements on the accompanying consolidated statement of activities. At June 30, 2009, the fair value liability for interest rate swap agreements totaled $6,721,000 and the net unrealized loss recognized in the accompanying consolidated statement of activities for the year ended was approximately $2,242,000.

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 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 is 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, 2010, 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 $5,481,000 and $4,776,000 for the years ended June 30, 2010 and 2009, respectively. Contributions are based upon a percentage of the employee's compensation.

11. Net Assets

Net assets consist of the following at June 30, 2010 and 2009 (in thousands):

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds				
Long-term investment (quasi - endowment)	$ 134,268	$ -	$ -	$ 134,268
Original principal			103,637	103,637
Unspent income and appreciation				
Scholarship support	-	33,744	-	33,744
Faculty support	-	9,027	-	9,027
Program support	-	18,142	-	18,142
Total endowment funds	134,268	60,913	103,637	298,818
Split-interest agreements and perpetual trusts	-	5,701	17,671	23,372
Student loan funds	11,067	-	3,171	14,238
Gifts and other unexpended revenues				
Acquisition of building and equipment	-	5,682	-	5,682
Instruction, research, and institutional support	-	6,317	-	6,317
Undesignated	51,787	-	-	51,787
	$ 197,122	$ 78,613	$ 124,479	$ 400,214

2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds				
Long-term investment (quasi - endowment)	$ 127,608	$ -	$ -	$ 127,608
Original principal			95,161	95,161
Unspent income and appreciation				
Scholarship support	-	31,208	-	31,208
Faculty support	-	8,343	-	8,343
Program support	-	16,899	-	16,899
Total endowment funds	127,608	56,450	95,161	279,219
Split-interest agreements and perpetual trusts	-	4,926	15,143	20,069
Student loan funds	10,369	-	3,031	13,400
Gifts and other unexpended revenues				
Acquisition of building and equipment	-	13,402	-	13,402
Instruction, research, and institutional support	-	4,535	-	4,535
Net investment in plant	7,004	-	-	7,004
Undesignated	30,821	-	-	30,821
	$ 175,802	$ 79,313	$ 113,335	$ 368,450

12. Expenses by Functional Category

Following are expenses categorized by function (in thousands):

	2010	2009
Instruction and department research	$ 65,876	$ 62,069
Sponsored research	17,041	15,819
External relations	6,993	6,697
Institution and academic support	35,124	35,504
Student services	13,036	12,224
Auxiliary enterprises	16,828	16,939
	$ 154,898	$ 149,252

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 $3,906,000 and $3,792,000 of fund-raising expenses for the years ended June 30, 2010 and 2009, respectively.

13. Acquisition of Remaining Interest in Gateway Park, LLC and New Garden Park, Inc.

The University and Worcester Business Development Corporation (“WBDC”) jointly formed Gateway Park, LLC (“Gateway”) to purchase and develop land located in the Gateway Park area of Worcester. For the year ended June 30, 2009, the University had a 50% interest and accounted for this investment using the equity method.

New Garden Park, Inc. (“New Garden Park”) is a Massachusetts not-for-profit corporation that owned and managed a parking garage located in the Gateway Park area of Worcester. At June 30, 2009 the University had an uncollateralized note receivable from New Garden Park with interest accruing at 7.0% and total amounts due of approximately $5,244,000. For the year ended June 30, 2009, the University had a 50% interest in New Garden Park and accounted for this investment using the equity method.

On March 26, 2010, the University acquired WBDC’s interest in the Gateway Park related entities. Under the terms of the agreement, the University acquired WBDC’s 50% interest in Gateway in exchange for a $2,000,000 interest free note with a fair value of $1,766,000, payable to WBDC in monthly installments over five years. Washburn Park, Inc. (“Washburn”), a newly created not-for-profit corporation, in which the University is the sole member, acquired substantially all of the assets, consisting of the parking garage and additional parcels of land, previously owned by New Garden Park in exchange for assuming $4,212,000 of its outstanding debt. The University and WBDC previously co-managed New Garden Park. The purpose of the acquisition is to advance the University’s long-term objective of developing Gateway Park for a mix of academic, research, residential and commercial enterprises. WBDC will continue to work with the University on a consulting basis being paid $200,000 annually for the next two years.

The University has accounted for this transaction as an acquisition and, accordingly, the activities of these entities have been consolidated in the University's financial statements since the acquisition date. The following table summarizes the consideration paid on March 26, 2010 (in thousands).

Consideration paid	$	1,766
Fair value of assets acquired and liabilities assumed:		
Parking garage	$	5,480
Land		3,060
Other assets		68
Long term debt		(3,931)
Notes payable to the University		(2,810)
Other liabilities		(101)
Total	$	1,766

14. Related Parties

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 $7,758,000 in outstanding mortgage and construction notes payable with TD Banknorth, N.A. for which the University entered into limited guarantees. As of June 30, 2010, the amount guaranteed by the University is approximately $970,000.

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, 2010 and 2009, funds held for others in the consolidated statements of financial position includes Alumni Association assets of $2,025,000 and $1,941,000, respectively.

15. Commitments and Contingencies

Construction Contracts
For the year ended June 30, 2010, the University has contracted for the construction of a sports and recreation facility. The total project cost, including furnishings and fixtures, is estimated to approximate $53,200,000. The majority of the funds to satisfy this commitment are included in funds held under bond agreements at June 30, 2010.

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.

Investments
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, 2010, the University had unfunded commitments of approximately $12,152,000 that can be called through 2020. These commitments will be funded from the University's existing cash and investments.

Operating Leases
The University is obligated under noncancelable operating leases for office space and storage facilities. The future minimum rental commitments under these agreements as of June 30, 2010, are approximately as follows (in thousands):

2011	$	356
2012		356
2013		356
2014		213
2015		184
Thereafter		552
	$	2,017

Rental expense was approximately $544,000 and $519,000 for the years ended June 30, 2010 and 2009, respectively.

Guarantees
In addition to the amounts guaranteed by the University as disclosed in Note 14, 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.

Interest Rate Agreements
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.

Uncertain Tax Positions
The University is generally exempt from federal and state income taxes. Management annually reviews for uncertain tax positions along with any related interest and penalties and believes that the University has no uncertain tax positions that would 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.

Sponsored Research
The University's sponsored research program and indirect cost recovery are subject to audit by the respective sponsoring federal agency as provided for in federally 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.

Other Commitments and Contingencies
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.

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.

16. Current Developments and Subsequent Events

Fair Value Disclosures

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-12, "Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Value per Share (or its equivalent)". This ASU provides a practical expedient of relying on the manager's estimate of net asset value per share to measure the fair value of investments within the scope of the ASU and also requires enhanced disclosures around the major categories of investments and their related attributes. The University adopted the practical expedient for the year ended June 30, 2009 and the enhanced disclosure provisions for the year ended June 30, 2010.

In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements". This ASU requires a number of additional disclosures regarding fair value measurements. Specifically, the update requires disclosure of the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers, the reasons for any transfer in or out of Level 3 and information in the reconciliation of Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition, the update clarifies certain existing disclosure requirements. The University adopted these disclosure provisions for the year ended June 30, 2010.

Mergers and Acquisitions

In May 2009, the FASB issued Accounting Standards Codification ("ASC") 958 (previously 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 ASC also discontinues amortization of goodwill and intangibles recognized in an acquisition. This ASC is effective for mergers occurring on or after December 15, 2009, and for acquisitions occurring after June 30, 2010.

Subsequent Events

In the fiscal year ended June 30, 2009, The University adopted ASC 855 (previously Statement of Financial Accounting Standards No. 165, "Subsequent Events" ("SFAS 165"). ACS 855 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. The FASB recently amended ASC 855 to clarify the definition of issuance date for financial statements to be the date of wide distribution for organizations that have issued public debt. Wide distribution is defined as the date the financial statements are posted to the University's website or when filed with the Electronic Municipal Market Access ("EMMA"). Accordingly, management has evaluated subsequent events for the period after June 30, 2010 through November 1, 2010, the date the financial statements were posted to the University's website and determined that there have been no subsequent events that would require recognition in the financial statements or disclosure in the notes of the financial statements.