# Worcester Polytechnic Institute

**Consolidated Financial Statements**
**June 30, 2018 and 2017**

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## Report of Independent Auditors

To the Board of Trustees of
Worcester Polytechnic Institute

We have audited the accompanying consolidated financial statements of Worcester Polytechnic Institute and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and of cash flows for the years then ended.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Worcester Polytechnic Institute and its subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note 2 to the consolidated financial statements, the University has changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2018. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP
November 7, 2018

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# Worcester Polytechnic Institute
## Consolidated Statements of Financial Position
## June 30, 2018 and 2017 (in thousands)

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 62,346 | $ 50,278 |
| Cash designated for construction | 3,223 | 27,028 |
| Accounts receivable, net | 7,690 | 6,255 |
| Contributions receivable, net | 7,896 | 9,455 |
| Funds held under bond agreements | 377 | 376 |
| Prepaid expenses and other assets | 7,514 | 7,765 |
| Student loans receivable, net | 18,432 | 19,672 |
| Beneficial interest in trusts | 18,295 | 19,146 |
| Investments | 543,705 | 526,713 |
| Land, buildings and equipment, net | 347,653 | 319,848 |
| Total assets | $ 1,017,131 | $ 986,536 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | 31,837 | 23,811 |
| Deposits and deferred revenue | 13,053 | 7,904 |
| Liabilities under split-interest agreements | 8,484 | 8,679 |
| Funds held for others | 4,177 | 4,153 |
| Asset retirement obligations | 2,049 | 2,340 |
| Refundable government loan funds | 9,359 | 9,272 |
| Bonds and notes payable | 281,097 | 279,430 |
| Interest rate agreements | 5,949 | 8,282 |
| Total liabilities | 356,005 | 343,871 |
| **Net assets** | | |
| Without donor restrictions | 307,008 | 298,286 |
| With donor restrictions | | |
| Time or purpose | 134,608 | 127,798 |
| Perpetual | 219,510 | 216,581 |
| Total net assets | 661,126 | 642,665 |
| Total liabilities and net assets | $ 1,017,131 | $ 986,536 |

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

# Worcester Polytechnic Institute
## Consolidated Statement of Activities
## Year Ended June 30, 2018 (in thousands)

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Operating revenues** | | | |
| Tuition and fees | $ 251,343 | $ - | $ 251,343 |
| Less: Student aid | 80,217 | - | 80,217 |
| Net tuition and fees | 171,126 | - | 171,126 |
| Other educational activities | 3,029 | - | 3,029 |
| Contributions | 5,136 | 2,802 | 7,938 |
| Contract and exchange transactions | 27,328 | - | 27,328 |
| Investment income on endowment and similar funds | 2,829 | 1,717 | 4,546 |
| Net realized gains on endowment used for operations | 7,711 | 11,127 | 18,838 |
| Other investment income | 2,374 | 406 | 2,780 |
| Sales and services of auxiliary enterprises | 29,641 | - | 29,641 |
| Other | 4,838 | - | 4,838 |
| Total revenues | 254,012 | 16,052 | 270,064 |
| Net assets released from restriction | 14,082 | (14,082) | - |
| Total revenues and other support | 268,094 | 1,970 | 270,064 |
| **Operating expenses** | | | |
| Instruction and department research | 120,809 | - | 120,809 |
| Sponsored research and other sponsored programs | 25,403 | - | 25,403 |
| External relations | 12,180 | - | 12,180 |
| Institution and academic support | 50,464 | - | 50,464 |
| Student services | 23,612 | - | 23,612 |
| Auxiliary enterprises | 28,253 | - | 28,253 |
| Total operating expenses | 260,721 | - | 260,721 |
| Change in net assets from operating activities | 7,373 | 1,970 | 9,343 |
| **Nonoperating** | | | |
| Net realized and unrealized gains/(losses) on investments | 12,756 | 15,418 | 28,174 |
| Net realized gains on endowment used for operations | (7,711) | (11,127) | (18,838) |
| Net unrealized gains on beneficial interest in trusts | - | 798 | 798 |
| Change in value of split-interest agreements | (608) | 90 | (518) |
| Contributions | - | 2,591 | 2,591 |
| Net realized and unrealized gains on interest rate agreements | 1,095 | | 1,095 |
| Loss on extinguishment of debt | (4,184) | - | (4,184) |
| Change in net assets from nonoperating activities | 1,348 | 7,770 | 9,118 |
| Total change in net assets | 8,722 | 9,739 | 18,461 |
| Net assets, beginning of year | 298,286 | 344,379 | 642,665 |
| Net assets, end of year | $ 307,008 | $ 354,118 | $ 661,126 |

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

# Worcester Polytechnic Institute
## Consolidated Statement of Activities
## Year Ended June 30, 2017 (in thousands)

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Operating revenues** | | | |
| Tuition and fees | $ 242,760 | $ - | $ 242,760 |
| Less: Student aid | 79,405 | - | 79,405 |
| Net tuition and fees | 163,355 | - | 163,355 |
| Other educational activities | 2,500 | - | 2,500 |
| Contributions | 4,581 | 5,006 | 9,587 |
| Contract and exchange transactions | 28,280 | - | 28,280 |
| Investment income on endowment and similar funds | 2,297 | 1,997 | 4,294 |
| Net realized gains on endowment used for operations | 8,028 | 11,408 | 19,436 |
| Other investment income | 2,242 | 714 | 2,956 |
| Sales and services of auxiliary enterprises | 28,512 | - | 28,512 |
| Other | 4,122 | - | 4,122 |
| Total revenues | 243,917 | 19,125 | 263,042 |
| Net assets released from restriction | 15,965 | (15,965) | - |
| Total revenues and other support | 259,882 | 3,160 | 263,042 |
| **Operating expenses** | | | |
| Instruction and department research | 115,302 | - | 115,302 |
| Sponsored research and other sponsored programs | 25,684 | - | 25,684 |
| External relations | 11,526 | - | 11,526 |
| Institution and academic support | 46,611 | - | 46,611 |
| Student services | 23,450 | - | 23,450 |
| Auxiliary enterprises | 27,426 | - | 27,426 |
| Total operating expenses | 249,999 | - | 249,999 |
| Change in net assets from operating activities | 9,883 | 3,160 | 13,043 |
| **Nonoperating** | | | |
| Net realized and unrealized gains/(losses) on investments | 20,018 | 24,078 | 44,096 |
| Net realized gains on endowment used for operations | (8,028) | (11,408) | (19,436) |
| Net unrealized gains on beneficial interest in trusts | - | 853 | 853 |
| Change in value of split-interest agreements | (183) | (499) | (682) |
| Contributions | - | 4,390 | 4,390 |
| Net realized and unrealized gains on interest rate agreements | 2,244 | - | 2,244 |
| Change in net assets from nonoperating activities | 14,051 | 17,414 | 31,465 |
| Total change in net assets | 23,934 | 20,574 | 44,508 |
| Net assets, beginning of year | 274,352 | 323,805 | 598,157 |
| Net assets, end of year | $ 298,286 | $ 344,379 | $ 642,665 |

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

# Worcester Polytechnic Institute
## Consolidated Statements of Cash Flows
## Years Ended June 30, 2018 and 2017 (in thousands)

| | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ 18,461 | $ 44,508 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation, amortization, and accretion | 20,805 | 20,896 |
| Provision for uncollectible receivables | 34 | 209 |
| Loss on disposals of land, buildings, and equipment | 343 | 157 |
| Net realized and unrealized losses (gains) on investments | (28,795) | (44,950) |
| Net unrealized gains on interest rate agreements | (1,095) | (2,244) |
| Loss on extinguishment of debt | 4,184 | - |
| Contributions other than cash | (1,332) | (1,762) |
| Contributions restricted for long-term investment | (2,591) | (4,391) |
| Proceeds from sale of donated securities | 1,697 | 1,474 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (1,656) | 1,113 |
| Contributions receivable | 1,720 | 4,393 |
| Prepaid expenses and other assets | 312 | (470) |
| Accounts payable and accrued liabilities | 3,559 | (1,356) |
| Deposits and deferred revenue | 5,733 | (257) |
| Split-interest agreements | (194) | (69) |
| Funds held for others | (68) | 96 |
| Asset retirement obligations | (290) | 13 |
| Refundable government loan funds | 86 | 11 |
| Total adjustments | 2,452 | (27,137) |
| Net cash provided by operating activities | 20,913 | 17,371 |
| **Cash flows from investing activities** | | |
| Proceeds from sales and maturities of investments | 84,547 | 55,429 |
| Purchase of investments | (72,702) | (47,464) |
| Investment of proceeds from long-term debt | - | - |
| Purchase of land, buildings, and equipment | (43,260) | (33,675) |
| Use of funds held under bond agreements | 23,805 | 18,535 |
| Disbursement of loans to students | (2,723) | (2,710) |
| Repayment of loans from students | 3,920 | 4,123 |
| Net cash used in investing activities | (6,413) | (5,762) |
| **Cash flows from financing activities** | | |
| Contributions restricted for long-term investment | 2,591 | 4,391 |
| Deferred financing costs | - | (61) |
| Realized loss on interest rate agreements | (1,238) | (1,504) |
| Proceeds from long-term debt | 1,555 | 1,662 |
| Repayment of long-term debt | (5,340) | (5,882) |
| Net cash provided by financing activities | (2,432) | (1,394) |
| Net increase in cash and cash equivalents | 12,068 | 10,215 |
| Cash and cash equivalents at beginning of year | 50,278 | 40,063 |
| Cash and cash equivalents at end of year | $ 62,346 | $ 50,278 |
| **Supplemental disclosures of cash flow information** | | |
| Interest paid | $ 10,674 | $ 9,152 |
| Contributed securities | $ 1,687 | $ 1,530 |
| Gifts-in-kind | $ 543 | $ 732 |
| Purchases of buildings and equipment included in accounts payable | $ 7,989 | $ 2,518 |
| Leased equipment | $ 1,291 | $ 1,262 |

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 technological university. Approximately 6,400 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 80 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:

*Net assets with donor restrictions*
Net assets subject to donor-imposed stipulations include assets to 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. Also included are 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.

*Net assets without donor restrictions*
Net assets not subject to explicit donor-imposed stipulations. Net assets without donor restrictions 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 described below. Intercompany accounts and transactions have been eliminated.

**Washburn Park, Inc. (“Washburn”)**
Washburn is a not-for-profit corporation that owns and operates a parking garage and a life sciences and bioengineering facility located in the Gateway Park area of Worcester. Washburn also owns land used for the construction of Faraday Hall, a residence hall completed in August 2014.

**Gateway Park, LLC (“Gateway”)**
Gateway owns land located in the Gateway Park area of Worcester.

**Lancaster Island, LLC (“Lancaster”)**
Lancaster owns land located in the Gateway Park area of Worcester and is the lessee of a parcel of land being used for student parking.

### Classifications

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions or by law. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions 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, gains or losses on beneficial interest in trusts, change in value of split-interest agreements, net contributions for endowment and capital use, and gains or losses on interest rate 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, the estimated net realizable value of receivables for contributions, gifts, pledges, student loans, student accounts and other receivables, the estimated useful lives of buildings and equipment, and its liabilities for its asset retirement obligations, self-insured medical claims, and split-interest agreements. Actual results could differ from those estimates.

### 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 designated cash and 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 not classified as investments, is maintained with one regional bank and exceeds federal insurance limits. It is the University's policy to monitor the bank's financial strength on an ongoing basis.

### Cash Designated for Construction

The University has classified proceeds received from the issuance of taxable bonds as designated for construction. These proceeds are intended to finance various capital projects and associated interest during the construction phase.

### 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 net assets with donor restrictions and are reclassified to net assets without donor restrictions 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 net assets with donor restrictions. 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 0.4% to 2.3%. 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 uncollectible accounts 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 without donor restrictions 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 without donor restrictions support provided the long-lived assets are placed in service in the same reporting period, otherwise, the contributions are reported as net assets with donor restrictions support until the assets are acquired and placed in service and then, such amounts are reclassified to net assets without donor restrictions.

**Deferred Financing Costs**
Included in bonds and notes payables are deferred financing costs that are being amortized over the life of the related bonds.

For the years ended June 30, 2018 and 2017, deferred financing costs, net totaled approximately $2,391,000 and $2,466,000 respectively. Amortization expense for the years ended June 30, 2018 and 2017 was approximately $82,000 and $84,000, respectively. During 2018, approximately $830,000 of such costs were written off in connection with the extinguishment of certain University debt. The estimated amortization expense for deferred financing costs for the next five years is approximately $82,000 annually.

**Beneficial Interest in Trusts**
The University is the beneficiary of certain perpetual trusts and charitable remainder trusts held and administered by third-party trustees. Under the terms of these agreements, the University has the irrevocable right to its share of the income earned on the trust assets. The use of the income may be restricted by the donor. The estimated fair value of trust assets are recognized as assets and contribution revenue when reported to the University.

**Investments**
Investments are reported at fair value. Fair value is market-based measurement based on assumptions used to determine 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. As a basis for considering assumptions, the University prioritizes inputs using three levels, based on the markets in which the investments trade and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on quoted prices for identical investments in active markets. Market price data is generally obtained from relevant exchange or dealer markets.

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 investments 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.

Fair values for certain investments held are based on net asset value (NAV) of such investments as determined by the respective external investment managers, including general partners, if market values are not readily ascertainable. These valuations are based on estimates involving assumptions and valuation techniques used by the respective investment managers.

Fair value is best determined based on quoted market prices. 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 investment.

Investments 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 fair value basis with each individual fund subscribing to or disposing of units on the basis of the fair 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 statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investment income is recorded in net assets without donor restrictions unless its use is 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.

Depreciation expense is computed on a straight-line basis over the estimated useful lives. 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 | 10 to 40 years |
| Equipment | 3 to 10 years |

**Deposits and Deferred Revenue**
Deposits and deferred revenue represent revenues received in advance of services to be rendered and are primarily composed of revenue for student tuition and educational fees received in advance and advance payments on sponsored research programs.

Included in deposits and deferred revenue is the realized gain on an interest rate-lock contract on borrowings in 2007. During 2016, approximately $1,619,000 of the gain was recognized as income in connection with the extinguishment of certain University debt. The remaining gain is being amortized over the life of the related bonds. As part of the refunding of the 2007 series the remaining gain was extinguished. For the years ended June 30, 2018 and 2017, the net deferred gain totaled $0 and $589,000, respectively.

### Split-Interest Agreements

The University's split-interest agreements with donors are included in investments and consist of charitable gift annuities, charitable lead trusts, charitable remainder trusts, and pooled income arrangements. Assets are invested by the University or third-party trustees and payments are made to beneficiaries in accordance with the respective agreements. At the end of each agreement's term, amounts are distributed 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 1.2% to 10.6%

### 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.

### Implementation of Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers.* ASU 2014-09 outlines a single comprehensive standard for revenue recognition guidance. In addition, ASU 2014-09 will require new and enhanced disclosures. ASU 2014-09 will become effective for annual reporting periods beginning after December 15, 2017. The University is currently evaluating the effect of adoption to the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018. The University is currently evaluating the effect of adoption to the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which revises the not-for-profit financial reporting model. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting. The standard is intended to improve net asset classification requirements and the information presented in the financial statements and notes about a not for profit's liquidity, financial performance, and cash flows.

The university early adopted ASU 2016-14 in 2018 and applied the changes retrospectively. As a result of the adoption of ASU 2016-04, the University was required to reclassify its net assets from three categories into two categories: net assets without donor restrictions and net assets with donor restrictions. It also requires recognition of underwater endowment funds as a reduction of net assets with donor restrictions. In addition, the guidance requires enhanced disclosures about the University's liquidity and expenses by both their natural and functional classification.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*. ASU 2016-18 requires inclusion of restricted cash to be included within the statement of cash flows. The standard is intended to standardize the treatment of restricted cash within the statement of cash flows. As a result of the adoption of this standard, the statement of cash flows will include cash designated for construction as well as cash and cash equivalents in the total cash lines. These amounts are currently disclosed within the cash flows from investing activities. ASU 2016-18 is effective for the University beginning in fiscal year 2019.

**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, 2018 and 2017 (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Sponsored research | $ 3,972 | $ 3,444 |
| Student receivables | 2,716 | 1,823 |
| Other receivables | 1,741 | 1,575 |
| | 8,429 | 6,842 |
| Less: Allowance for doubtful accounts | (739) | (587) |
| | $ 7,690 | $ 6,255 |

## 4. Contributions Receivable

Unconditional promises are expected to be received in the following periods at June 30, 2018 and 2017 (in thousands):

| | 2018 | 2017 |
|---|---|---|
| In one year or less | $ 4,218 | $ 5,991 |
| Between one and five years | 4,242 | 4,190 |
| | 8,460 | 10,181 |
| Less: | | |
| Discount to present value | (205) | (191) |
| Allowance for doubtful contributions | (359) | (535) |
| | $ 7,896 | $ 9,455 |

As of June 30, 2018 and 2017, the University has approximately $58,416,000 and $33,529,000, respectively, of conditional promises to give that are not recognized as assets in the accompanying consolidated statements of financial position.

## 5. Student Loans Receivable

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2018 and 2017, student loans represented 1.8% and 2.0% of total assets, respectively.

Student loans receivable consist of the following at June 30, 2018 and 2017 (in thousands):

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Federal Government Programs | Institutional Programs | Total | Federal Government Programs | Institutional Programs | Total |
| Student loans receivable | $ 10,389 | $ 8,439 | $ 18,828 | $ 10,854 | $ 9,235 | $ 20,089 |
| Less allowance for doubtful accounts: | | | | | | |
| Beginning of year | (150) | (267) | (417) | (150) | (293) | (443) |
| Decreases (increases) | - | (69) | (69) | - | (83) | (83) |
| Write-offs | - | 90 | 90 | - | 109 | 109 |
| End of year | (150) | (246) | (396) | (150) | (267) | (417) |
| Student loans receivable, net | $ 10,239 | $ 8,193 | $ 18,432 | $ 10,704 | $ 8,968 | $ 19,672 |

The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government and their share of student loan activity of $9,359,000 and $9,272,000 at June 30, 2018 and 2017 are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan.

The following amounts were past due under student loan programs at June 30, 2018 and 2017 (in thousands):

| | 1-60 days | 60-90 days | 90+ days | Total past due |
|---|---|---|---|---|
| June 30, 2018 | $ 9 | $ 5 | $ 900 | $ 914 |
| June 30, 2017 | $ 14 | $ 3 | $ 919 | $ 936 |

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

## 6. Beneficial Interest in Trusts

Beneficial interest in trusts are carried at fair value using discounted present value and other similar methodologies. The following table summarizes the changes in these trusts during the years ended June 30, 2018 and 2017 (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Fair value, beginning of year | $ 19,146 | $ 18,293 |
| Net unrealized gains and (losses) | 798 | 853 |
| Contributions | - | - |
| Distributions, net | (1,649) | - |
| Fair value, end of year | $ 18,295 | $ 19,146 |

## 7. Investments

Investments at June 30, 2018 are as follows (comparative totals are included for 2017) (in thousands):

| | 2018 | | | |
|---|---|---|---|---|
| | Endowment and Similar Funds | Split-Interest Agreements | Total | 2017 Total |
| Cash and cash equivalents | $ 5,320 | $ 286 | $ 5,606 | $ 5,480 |
| Equity securities | 158,573 | 13,252 | 171,825 | 173,195 |
| Fixed income securities | 66,172 | 4,191 | 70,363 | 76,748 |
| Commodities | - | - | - | 12,332 |
| Alternative investments | | | | |
| Equity funds | 156,917 | - | 156,917 | 133,532 |
| Fixed income funds | 51,557 | - | 51,557 | 46,491 |
| Private equity funds | 44,169 | - | 44,169 | 36,373 |
| Real estate | 43,268 | - | 43,268 | 42,562 |
| Total investments | $ 525,976 | $ 17,729 | $ 543,705 | $ 526,713 |

As describe in Note 2, investments are recorded at fair value. The following tables summarize the fair values of the University's investments at June 30, 2018 and 2017 (in thousands):

| | **2018** | | | | |
|---|---|---|---|---|---|
| | **Quoted Prices in Active Markets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **NAV Practical Expedient** | **Total** |
| Cash and cash equivalents | $ 5,607 | - | - | - | $ 5,607 |
| Equity securities | 171,825 | - | - | - | 171,825 |
| Fixed income securities | 70,363 | - | - | - | 70,363 |
| Commodities | - | - | - | - | - |
| Alternative investments | | | | | |
| Equity funds | - | - | - | 156,917 | 156,917 |
| Fixed income funds | - | - | - | 51,557 | 51,557 |
| Private equity funds | - | - | 1,859 | 42,309 | 44,168 |
| Real estate | - | - | 26,748 | 16,520 | 43,268 |
| Total investments | $ 247,795 | $ - | $ 28,607 | $ 267,303 | $ 543,705 |

| | **2017** | | | | |
|---|---|---|---|---|---|
| | **Quoted Prices in Active Markets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **NAV Practical Expedient** | **Total** |
| Cash and cash equivalents | $ 5,480 | - | - | - | $ 5,480 |
| Equity securities | 173,195 | - | - | - | 173,195 |
| Fixed income securities | 76,748 | - | - | - | 76,748 |
| Commodities | 12,332 | - | - | - | 12,332 |
| Alternative investments | | | | | |
| Equity funds | - | - | - | 133,532 | 133,532 |
| Fixed income funds | - | - | - | 46,491 | 46,491 |
| Private equity funds | - | - | 1,002 | 35,371 | 36,373 |
| Real estate | - | - | 26,820 | 15,742 | 42,562 |
| Total investments | $ 267,755 | $ - | $ 27,822 | $ 231,136 | $ 526,713 |

Fair values of equity, fixed income and commodity 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. Investments in limited partnerships and limited liability companies (generally referred to as "limited partnerships") for which readily ascertainable market values are not available are reported at estimated fair value as determined by Management or at the investment net asset value ("NAV") as a practical expedient. Investments in limited partnerships are generally valued based upon the most recent NAV or capital account information available from the general partner of the investment limited partnership, taking into consideration, where applicable, other information determined to be a reliable indicator of fair value. These factors include rights and obligations, restrictions or illiquidity on such interest, potential clawbacks, and the fair value of the limited partnership's investment portfolio or other assets and liabilities. The values assigned to investments in limited partnership are based upon available information and do not necessarily represent amounts which might ultimately be realized. Because of the inherent uncertainty of valuation, those estimated fair values may differ significantly from the values that would have been realized had a ready market for the investments existed and those differences could be material.

Real estate consists mainly of direct real estate holdings and investments in privately held entities. The fair values of the real estate investments in privately held entities have been valued based on the NAV provided by the fund managers of these investment vehicles. The fair values of direct real estate holdings have been prepared giving consideration to periodic independent external appraisals, as well as the income, cost and sales comparison approaches of estimating property value. The income approach estimates an income stream for a property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. A second technique is the direct capitalization analysis. Direct capitalization involves capitalizing a property's first year, or stabilized net operating income into a value estimate. Yield rates and growth assumptions utilized in both approaches are derived from market transactions as well as other financial and industry data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. Generally, this approach provides a check on the value derived using the income approach. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for dissimilarities which typically provide a range of value. The income capitalization and sales comparison approach were used to value the direct real estate investments. The capitalization rates, sales price per acre of comparable properties, and the comparability adjustments are considered to be significant unobservable inputs to these valuations. These rates and adjustments vary and are based on the location, type and nature of each property, and current and anticipated market conditions. Appraisals for any direct real estate holding were prepared by independent external appraisers. Management believes the appraisals approximate fair value for real estate holdings at June 30, 2018 and 2017.

The following table summarizes the valuation methods and quantitative information about the significant unobservable inputs used in the fair value measurement of Level 3 direct real estate holdings at June 30, 2018 and 2017 not valued at NAV (in thousands):

| Real estate investment | 2018 | 2017 | Valuation Technique | Unobservable Input | Range |
|---|---|---|---|---|---|
| Commercial real estate, Worcester, MA | $ 7,700 | $ 7,700 | Income capitalization | Capitalization Rate | 5.39% - 9.56% |
| Commercial real estate, Florida | 6,600 | 6,600 | Income capitalization | Capitalization Rate | 8.0% - 14.0% |
| Leased land, Worcester, MA | 5,250 | 5,250 | Income capitalization | Capitalization Rate | 3.96% - 6.1% |
| Parking garage, Worcester, MA | 3,475 | 3,475 | Income capitalization | Capitalization Rate | 8.25% |
| Undeveloped land, Worcester, MA | 1,740 | 1,740 | Sales comparison | Price per acre | $0.7M - $1.4M |
| | | | | Comparability adjustments | -20% - +30% |
| Undeveloped land, Worcester, MA | 1,600 | 1,600 | Sales comparison | Price per acre | $0.7M - $1.4M |
| | | | | Comparability adjustments | -5% - +45% |
| Residential real estate, US | 383 | 455 | Sales comparison | Price per square foot | $365K - $405K |
| | $ 26,748 | $ 26,820 | | | |

Alternative investments consist of non-controlling, limited marketability stock holdings and investments in limited partnerships. The fair values of investments in limited partnerships have been valued based on the NAV provided by the fund managers of these investment vehicles and reviewed by management. The following tables summarize key provisions for the University’s alternative investments valued at NAV as of June 30, 2018 and 2017 (in thousands):

**2018**

| Asset Class | Strategy | Fair Value | Remaining Life | Unfunded Commitments | Redemption Terms | Redemption Restrictions |
|---|---|---|---|---|---|---|
| Absolute Return - Market Neutral | Global equity and fixed income funds in market neutral categories | $ 95,806 | No limit | | Redemption terms range from quarterly with 60 to 90 days notice to annually with 45 to 90 days notice. | Lock-up provisions range from none to redemptions limited to 1/3 of the value annually. |
| Private Equity | Venture capital and buyout in the US and global markets | 42,309 | up to 12 years | 33,066 | Private equity structure with no ability to redeem. | Not redeemable |
| Directional Hedge | Global long/short equity funds | 101,483 | No limit | | Redemption terms are quarterly with 60 days notice. | No lock-up provisions |
| Emerging Markets Equity | Primarily in long-only emerging makets equity | 11,185 | No limit | - | Redemption terms range from 10 business days in advance of valuation date to monthly redemptions with 7 days notice. | Ranges from no additional restrictions to partial redemptions allowed but may require full redemption if capital is below $1M |
| Real Estate | US real estate | 16,520 | up to 8 years | 26,701 | Private equity structure with no ability to redeem. | Not redeemable |
| Total | | $ 267,303 | | $ 59,767 | | |

**2017**

| Asset Class | Strategy | Fair Value | Remaining Life | Unfunded Commitments | Redemption Terms | Redemption Restrictions |
|---|---|---|---|---|---|---|
| Absolute Return - Market Neutral | Global equity and fixed income funds in market neutral categories | $107,369 | No limit | | Redemption terms range from quarterly with 60 to 90 days notice to annually with 45 to 90 days notice. | Lock-up provisions range from none to redemptions limited to 1/3 of the value annually. |
| Private Equity | Venture capital and buyout in the US and global markets | 35,371 | 1 to 13 years | 38,133 | Private equity structure with no ability to redeem. | Not redeemable |
| Directional Hedge | Global long/short equity funds | 72,654 | No limit | | Redemption terms are quarterly with 60 days notice. | No lock-up provisions |
| Real Estate | US real estate | 15,742 | 1 to 8 years | 30,679 | Private equity structure with no ability to redeem. | Not redeemable |
| Total | | $ 231,136 | | $ 68,812 | | |

The following table summarizes the changes in the Level 3 investments carried at fair value during the years ended June 30, 2018 and 2017 (in thousands):

| | Equity Funds | Fixed Income Funds | Private Equity Funds | Real Estate | Total |
|---|---|---|---|---|---|
| Fair value, June 30, 2016 | $ - | $ - | $ 1,002 | $ 26,975 | $ 27,977 |
| Transfers out | - | - | | | - |
| Net realized and unrealized gains | | | | 185 | 185 |
| Purchases | - | - | - | | - |
| Sales and settlements | - | - | - | (340) | (340) |
| Fair value, June 30, 2017 | - | - | 1,002 | 26,820 | 27,822 |
| Transfers out | | | | (52) | (52) |
| Net realized and unrealized gains | - | - | 857 | (20) | 837 |
| Purchases | - | - | - | - | - |
| Sales and settlements | - | - | - | | - |
| Fair value, June 30, 2018 | $ - | $ - | $ 1,859 | $ 26,748 | $ 28,607 |

In the consolidated statements of activities for the years ended June 30, 2018 and 2017, net realized and unrealized gains and losses on Level 3 investments are included in nonoperating net realized and unrealized gains and losses on investments.

**Endowment Income and Spending**

In addition to current yield (interest, dividends, and net rental income), 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 restricted until appropriated for use, and the historic dollar value of such funds is considered permanently restricted.

The University has adopted the 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. Accordingly, the University has not limited appropriation of underwater funds to current yield.

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. To achieve its long-term objectives within prudent risk parameters, the University targets a diversified asset allocation as follows:

| Asset Allocation Policy | Target % |
|---|---|
| Global equity | 40 |
| Private equity | 10 |
| Flexible capital | 25 |
| Fixed income | 10 |
| Real assets | 15 |

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 4.7% and 4.8% of its endowment and similar funds' average unit fair value for the previous twelve quarters, from the beginning of the fiscal year, for the years ended June 30, 2018 and 2017, respectively.

The spending rule distributions for fiscal years 2018 and 2017, respectively, were $0.284 and $0.289 per time weighted unit, comprised of, respectively, $0.061 and $0.056 of income and $0.223 and $0.233 of distributions from current and accumulated net gains. At June 30, 2018 there were a total of 77,889,663 units in the pooled endowment and similar funds, each having a fair value of $6.338. Of the total units, 43,754,673 were owned by endowment funds and 34,134,990 were owned by internally designated funds. At June 30, 2017 there were a total of 76,722,149 units in the pooled endowment and similar funds, each having a fair value of $6.202. Of the total units, 42,988,786 were owned by endowment funds and 33,733,363 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, 2018 and in each of the prior four years is as follows:

| | Income Per Time-Weighted Unit | Fair Value Per Unit |
|---|---|---|
| **2018** | $ 0.061 | $ 6.338 |
| **2017** | 0.056 | 6.202 |
| 2016 | 0.058 | 5.868 |
| 2015 | 0.056 | 6.158 |
| 2014 | 0.058 | 6.313 |
| 2013 | 0.058 | 5.753 |

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 net assets with donor restrictions. As a result of market declines, the fair value of certain permanently restricted endowment funds of $8,611,000 is less than the historic dollar value of such funds of $9,317,000 ("underwater funds") equaling approximately $706,000 and $882,000 at June 30, 2018 and 2017 respectively. 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, 2018 and 2017 and the changes for the years then ended are as follows (in thousands):

| | 2018 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor restricted | $ - | $ 304,792 | $ 304,792 |
| Quasi-endowment | 195,479 | - | 195,479 |
| Total | $ 195,479 | $ 304,792 | $ 500,271 |
| Balance, June 30, 2017 | $ 188,883 | $ 295,644 | $ 484,527 |
| Investment return | 16,770 | 16,606 | 33,376 |
| Contributions | 2,337 | 3,669 | 6,006 |
| Appropriated for expenditure | (12,511) | (11,127) | (23,638) |
| Balance, June 30, 2018 | $ 195,479 | $ 304,792 | $ 500,271 |

| | 2017 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor restricted | $ - | $ 295,644 | $ 295,644 |
| Quasi-endowment | 188,883 | - | 188,883 |
| Total | $ 188,883 | $ 295,644 | $ 484,527 |
| Balance, June 30, 2016 | $ 175,854 | $ 277,319 | $ 453,173 |
| Investment return | 23,107 | 25,109 | 48,216 |
| Contributions | 2,246 | 4,624 | 6,870 |
| Appropriated for expenditure | (12,324) | (11,408) | (23,732) |
| Balance, June 30, 2017 | $ 188,883 | $ 295,644 | $ 484,527 |

### Split-Interest Agreements

Investments include the following split-interest agreements at June 30, 2018 and 2017 (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Charitable gift annuities | $ 8,150 | $ 8,151 |
| Charitable remainder trusts | 8,216 | 7,916 |
| Pooled income funds | 1,363 | 1,495 |
| | $ 17,729 | $ 17,562 |

## 8. Land, Buildings and Equipment

Land, buildings and equipment, net, consist of the following at June 30, 2018 and 2017 (in thousands):

| | 2018 | 2017 |
|---|---|---|
| Land and land improvements | $ 26,919 | $ 26,005 |
| Buildings and improvements | 439,365 | 431,058 |
| Equipment | 84,861 | 78,675 |
| | 551,145 | 535,738 |
| Less: Accumulated depreciation | (258,546) | (238,565) |
| | 292,599 | 297,173 |
| Construction-in-progress | 55,054 | 22,675 |
| | $ 347,653 | $ 319,848 |

Depreciation expense charged to operations was approximately $21,127,000 and $21,012,000 for the years ended June 30, 2018 and 2017, respectively. Net interest cost capitalized was approximately $1,738,000 and $712,000 for the years ended June 30, 2018 and 2017, respectively.

## 9. Bonds and Notes Payable

Bonds and notes payable consist of the following (in thousands) at June 30, 2018 and 2017:

| Purpose and Definition | Maturity Date | Interest Rate % | Original Issue | Amount Due Within One Year | Balance, June 30, 2018 | Balance, June 30, 2017 |
|---|---|---|---|---|---|---|
| **Bonds payable** | | | | | | |
| Housing and Urban Development 1969 Series C (1) | 4/1/2019 | 3.0 | $ 1,160 | $ 42 | $ 42 | $ 87 |
| Massachusetts Development Finance Agency ("MDFA") 2007 Series (2) | 9/1/2047 | 4.0-5.0 | 81,915 | - | 0 | 18,441 |
| MDFA 2008 Series A & B (3) | 9/1/2035 | Variable | 54,815 | 2,035 | 42,520 | 44,505 |
| MDFA 2010 Series (4) | 9/1/2045 | 4.5-5.0 | 56,000 | - | 0 | 56,057 |
| MDFA 2012 Series (5) | 9/1/2050 | 4.0-5.0 | 42,540 | - | 43,242 | 43,263 |
| MDFA 2014 Series (3) | 9/1/2029 | 3.10 | 2,782 | 183 | 4,063 | 4,241 |
| MDFA 2016 Series (6) | 9/1/2052 | 3.0-5.0 | 49,030 | - | 48,706 | 48,868 |
| Worcester Polytechnic Institute 2016 Series (3) | 9/1/2056 | 4.338 | 56,905 | - | 56,905 | 56,905 |
| MDFA 2017A Series (7) | 9/1/2047 | 3.0-5.0 | 14,435 | 375 | 16,852 | 0 |
| MDFA 2017B Series (8) | 9/1/2045 | 5.0 | 52,990 | - | 61,722 | 0 |
| **Uncollateralized notes** | | | | | | |
| TD Bank | 7/1/2023 | Variable | 7,122 | 356 | 5,401 | 5,757 |
| **Capital lease obligations** | Various | Various | | 1,333 | 4,035 | 3,772 |
| **Total** | | | | 4,324 | 283,488 | 281,896 |
| **Less: deferred financing costs, net of amortization** | | | | | (2,391) | (2,466) |
| Total bonds and notes payable | | | | $ 4,324 | $ 281,097 | $ 279,430 |

(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 represent a general obligation of the University. The balances at June 30, 2018 and 2017 include a premium of approximately $0 and $461,000, respectively.

(3) The bonds, issued at par with no discount or premium, represent a general obligation of the University.

(4) The bonds represent a general obligation of the University. The balances at June 30, 2018 and 2017 include a premium of approximately $0 and $57,000, respectively.

(5) The bonds represent a general obligation of the University. The balances at June 30, 2018 and 2017 include a premium of approximately $702,000 and $723,000, respectively.

(6) The bonds represent a general obligation of the University. The balance at June 30, 2018 and 2017 includes a premium of approximately $5,671,000 and $5,833,000, respectively.

(7) The bonds represent a general obligation of the University. The balance at June 30, 2018 includes a premium of approximately $2,417,000.

(8) The bonds represent a general obligation of the University. The balance at June 30, 2018 includes a premium of approximately $8,732,000.

In compliance with the University's various bond indentures, funds held under bond agreements at June 30, 2018 and 2017 include investments of approximately $377,000 and $376,000, respectively, held for construction and debt service reserves.

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

| | |
|---|---|
| 2019 | $ 4,324 |
| 2020 | 4,265 |
| 2021 | 4,078 |
| 2022 | 3,737 |
| 2023 | 3,600 |
| Thereafter | 245,962 |
| Total cash payments | $ 265,966 |
| Premium | 17,522 |
| | $ 283,488 |

In October 2017, the University borrowed $14,435,000 in the form of Massachusetts Development Finance Agency ("MDFA") Revenue Bonds Series 2017 (tax-exempt). The proceeds from these bonds were used to current refund the University's outstanding MDFA Series 2007 bonds and to pay certain costs of issuance.

The refunding resulted in a gain of approximately $624,000 that has been included in the accompanying consolidated statement of activities. The MDFA 2017 Bonds are fixed rate bonds payable in annual installments with principal payments ranging from $325,000 to $695,000 beginning September 1, 2018, and interest ranging from 3.0% to 5.0%. The final maturity is September 1, 2047.

In December 2017, the University borrowed $52,990,000 in the form of Massachusetts Development Finance Agency ("MDFA") Revenue Bonds Series 2017B (tax-exempt). The proceeds from these bonds were used to advance refund the University's outstanding MDFA Series 2010 bonds and to pay certain costs of issuance.

The refunding resulted in a loss of approximately $4,808,000 that has been included in the accompanying consolidated statement of activities. The MDFA 2017B Bonds are fixed rate bonds payable in annual installments with principal payments ranging from $710,000 to $6,665,000 beginning September 1, 2034, and interest of 5.0%. The final maturity is September 1, 2045.

In June 2016, the University borrowed $49,030,000 in the form of MDFA Revenue Bonds Series 2016 (tax-exempt) (the "MDFA 2016 Bonds") and $56,905,000 in University taxable bonds (the "WPI 2016 Bonds.") The proceeds from these bonds were used to advance refund a portion of the University's outstanding MDFA Series 2007 bonds and to pay certain costs of issuance. The remaining proceeds will be used to finance the development, design, and construction and equipping of the Foisie Innovation Studio and an approximate 140-bed student residence, and various other capital renovations, deferred maintenance, and facilities improvements.

The MDFA 2016 Bonds are fixed rate bonds payable in annual installments with principal payments ranging from $790,000 to $11,180,000 beginning September 1, 2027, and interest ranging from 3.0% to 5.0%. The final maturity is September 1, 2052. The WPI 2016 Bonds are fixed rate bonds payable in annual installments with principal payments ranging from $4,370,000 to $14,000,000 beginning September 1, 2052, with interest at 4.34%. The final maturity is September 1, 2056.

In August 2014, the University borrowed $4,622,000 in the form of MDFA Revenue Bond Series 2014 private placement “draw-down bonds” (the “2014 Bonds”) to finance renovations, repairs and improvements to existing facilities. The “draw-down bonds” comprise three term bonds in the initial par amounts of $2,782,000 (Term Bond A), $1,440,000 (Term Bond B), and $400,000 (Term Bond C) to be drawn on or before September 1, 2014, 2015, and 2016, respectively. The 2014 Bonds are payable in monthly installments of principal plus interest and mature September 1, 2029. Interest is set at the time of draw-down at either a variable rate (0.6975 of the sum of 125 basis points and LIBOR) or a fixed rate (0.6975 of the sum of 125 basis points plus the Federal Home Loan Bank Rate). As of June 30, 2017, the University borrowed $2,782,000 (Term Bond A) with interest payable at a fixed rate of 3.10%, $1,440,000 (Term Bond B) with interest payable at a fixed rate of 3.01%, and $400,000 (Term Bond C) with interest payable at a fixed rate of 2.50%. Principal payments for Term Bond A range from $8,084 to $12,228 per month beginning October 1, 2014 through August 1, 2029 with a final installment of $989,887 due September 1, 2029. Principal payments for Term Bond B range from $4,466 to $6,558 per month beginning October 1, 2015 through August 1, 2029 with a final installment of $530,892 due September 1, 2029. Principal payments for Term Bond C range from $1,327 to $1,892 per month beginning October 1, 2016 through August 1, 2029 with a final installment of $153,170 due September 1, 2029.

In August 2013, the University refinanced borrowings of $7,122,000 in the form of two uncollateralized notes payable to TD Bank. The proceeds from the original borrowings in 2010 were used to refinance the debt assumed for the acquisition of the remaining interest in Gateway and Washburn. The borrowings consist of two notes payable with balloon payments due in 2023. Monthly installments of principal totaling $29,675 are paid based on a 20 year amortization with interest at 1.5% plus LIBOR, approximately 3.48% and 2.72% at June 30, 2018, and 2017, respectively.

In October 2012, the University borrowed $42,540,000 in the form of MDFA Revenue Bond Series 2012 (the “2012 Bonds”). The proceeds from the issue were used to finance the development, construction, furnishing, and equipping of an approximately 250-bed-apartment-style residence hall and other renovations, repairs, and improvements to campus facilities. The 2012 Bonds are fixed rate bonds payable in annual installments with principal payments ranging from $5,975,000 to $10,515,000 beginning September 1, 2046, and interest ranging from 4.0% to 5.0%. The final maturity is September 1, 2050.

In January 2010, the University borrowed $56,000,000 in the form of MDFA Revenue Bond Series 2010 (the “2010 Bonds”). The proceeds from the issue were 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 were defeased in 2017.

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. As of June 30, 2017 the 2008B Bonds had been retired. Interest on the 2008 Bonds is at a variable rate which is reset on a weekly basis. The interest rates at June 30, 2017 and 2018 for the 2008A Bonds were 0.90%. At June 30, 2018, the rates for the 2008A was 1.54%. The interest rate swap agreements entered into as an integral part of the 2008 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 expires in April 2023. 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 would be $0, $4,451,000, $8,901,000 and $13,352,000.

In June 2007, the University borrowed $81,915,000 in the form of MDFA Revenue Bonds, Worcester Polytechnic Institute, Series 2007, (the “2007 Bonds”). A portion of the 2007 Bonds were defeased in June 2016. The remaining amounts outstanding of $20,606,000 were refunded in 2017.

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, 2018 and 2017.

## 10. 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, 2018 and 2017 (dollars in thousands):

| | **Series 2008 A&B** | |
|---|---|---|
| | **Deutsche Bank AG** | **Barclays Bank PLC** |
| Trade/effective date | Nov. 3, 2008 | Nov. 3, 2008 |
| Initial notional amount | $14,100 | $34,200 |
| Termination date | Oct. 1, 2033 | Sept. 1, 2035 |
| Rate paid by University | 4.650% | 3.714% |
| Rate paid by Counterparty | 71% of one-month LIBOR | 67% of one-month LIBOR when LIBOR is ≥ 4.00%<br>SIFMA Municipal Swap Index when LIBOR is < 4.00% |

| | **Series 2008 A&B** | | |
|---|---|---|---|
| Fair Value Liability | **Deutsche Bank AG** | **Barclays Bank PLC** | Total, net |
| June 30, 2018 | $ 2,214 | $ 3,735 | $ 5,949 |
| June 30, 2017 | $ 2,957 | $ 5,325 | $ 8,282 |

The net unrealized gain that was recognized for the interest rate swap agreements for the years ended June 30, 2018 and 2017 was approximately $2,333,000 and $3,749,000, respectively, and has been recorded in net realized and unrealized losses on interest rate agreements on the accompanying consolidated statements of activities. At June 30, 2018 and 2017, the fair value liability for interest rate swap agreements totaled $5,949,000 and $8,282,000, respectively.

The interest rate swap agreements 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 Bank AG 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 Bank PLC 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 for the Barclays Bank PLC agreements. The provisions with both counterparties provide that the liability threshold decreases if the University's long term credit ratings decline. At June 30, 2018, the University is not required to post collateral to its counterparties.

## 11. Retirement 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 of America ("TIAA"), Fidelity Investments, or a combination of both. Contributions were approximately $9,616,000 and $9,131,000 for the years ended June 30, 2018 and 2017, respectively. Contributions are based upon a percentage of the employees' compensation.

## 12. Functional Expenses

Expenses are presented by functional classification. Each functional classification includes all expenses related to the underlying operations by natural classification. The costs of operation and maintenance of plant, depreciation, and interest expense have been allocated across all functional expense categories to reflect the full cost of those activities.

Costs are allocated using the following methods: Expense for the depreciation, administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant are allocated based on square footage. Interest expense is allocated based on usage of debt-financed space.

The following summarizes the allocation of functional expenses as of June 30, 2018 and 2017 (dollars in thousands):

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Instruction and Research** | **Sponsored Research** | **Student Services** | **Auxiliary Enterprises** | **External Relations** | **Institution and Academic Support** | **Total** |
| **Wages and Benefits** | 95,079 | 15,804 | 10,032 | 4,223 | 8,726 | 31,388 | 165,252 |
| **Operating Expenses** | 18,649 | 8,291 | 5,718 | 12,640 | 3,330 | 17,060 | 65,688 |
| **Depreciation** | 5,548 | 1,227 | 5,115 | 7,131 | 123 | 1,660 | 20,804 |
| **Interest Expense** | 1,533 | 81 | 2,747 | 4,259 | 1 | 356 | 8,977 |
| **Total** | 120,809 | 25,403 | 23,612 | 28,253 | 12,180 | 50,464 | 260,721 |

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Instruction and Research** | **Sponsored Research** | **Student Services** | **Auxiliary Enterprises** | **External Relations** | **Institution and Academic Support** | **Total** |
| **Wages and Benefits** | 90,413 | 15,445 | 9,577 | 4,193 | 8,334 | 26,864 | 154,826 |
| **Operating Expenses** | 17,461 | 9,076 | 5,684 | 12,078 | 3,060 | 17,668 | 65,027 |
| **Depreciation** | 5,789 | 1,099 | 5,301 | 6,891 | 126 | 1,671 | 20,877 |
| **Interest Expense** | 1,639 | 64 | 2,888 | 4,264 | 6 | 408 | 9,269 |
| **Total** | 115,302 | 25,684 | 23,450 | 27,426 | 11,526 | 46,611 | 249,999 |

External relations expenditures include approximately $6,679,000 and $6,128,000 of fundraising expenses for the years ended June 30, 2018 and 2017, respectively.

## 13. Availability of Resources

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments. When reviewing available resources required to meet its expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities.

In addition to the financial assets available to meet expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover expenditures not covered by donor-restricted resources. The University has generated operating cash flows for the fiscal years ended June 30, 2018 and 2017.

The following summarizes the financial assets available to meet its expenditures, as of June 30, 2018:

| | **Resources available at 6/30/18** | **Resources appropriated by the board and available in FY 2019** | **Resources not available within 12 months** | **Total** |
|---|---|---|---|---|
| **Financial assets available within 12 months:** | | | | |
| Cash and cash Equivalents | 65,569 | | | 65,569 |
| Accounts receivable, net | 7,690 | | | 7,690 |
| Contributions (unrestricted) due in 1 year or less available for expenditures | 126 | | | 126 |
| Forecasted payout of donor-restricted endowments | | 14,044 | | 14,044 |
| Forecasted payout on board designated endowments | | 9,468 | | 9,468 |
| Investments not subject to donor restrictions or board designations | 593 | | | 593 |
| **Total financial assets available within 12 months** | 73,978 | 23,512 | | 97,490 |
| **Financial assets not available for expenditures within 12 months:** | | | | |
| Cash, cash equivalents and investments | | | 538,271 | 538,271 |
| Contributions not due within one year | | | 7,770 | 7,770 |
| Student loan receivables, net | | | 18,432 | 18,432 |
| **Liquidity resources** | | | | |
| Bank line of credit (no balance outstanding as of June 30, 2018) | 25,000 | | | 25,000 |
| **Total financial assets and other liquidity resources** | 98,978 | 23,512 | 564,473 | 686,963 |

Included in financial assets not available for expenditure at June 30, 2018, the University had $195,479 of board-designated endowments that, with the board's approval, could be made available for expenditures.

### 14. Liquidity

Of the University's Investments, 44% are redeemable within 30 days, 33% may be redeemed either at future specified redemption dates or currently by incurring a penalty, and 23% are in real estate, private equites, and other private investments. Constraints that limit the University's ability to withdraw capital after such investments are made may limit the amount available for withdrawal at a given redemption date which could limit the University's ability to respond quickly to changes in market conditions.

### 15. Net Assets

Net assets consist of the following at June 30, 2018 and 2017 (in thousands):

| | 2018 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment funds | | | |
| Long-term investment (quasi - endowment) | $ 195,479 | | $ 195,479 |
| Original principal | | 197,986 | 197,986 |
| Unspent income and appreciation | | | |
| Scholarship support | | 66,270 | 66,270 |
| Faculty support | | 13,026 | 13,026 |
| Program support | | 27,510 | 27,510 |
| Total endowment funds | 195,479 | 304,792 | 500,271 |
| Split-interest agreements and perpetual trusts | 1,196 | 25,882 | 27,078 |
| Student loan funds | 13,417 | 3,974 | 17,391 |
| Gifts and other unexpended revenues | | | |
| Acquisition of building and equipment | - | 11,100 | 11,100 |
| Instruction, research, and institutional support | - | 8,370 | 8,370 |
| Undesignated | 96,916 | - | 96,916 |
| | $ 307,008 | $ 354,118 | $ 661,126 |

| | 2017 | | |
|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| Endowment funds | | | |
| Long-term investment (quasi - endowment) | $ 188,883 | $ - | $ 188,883 |
| Original principal | - | 194,365 | 194,365 |
| Unspent income and appreciation | | | |
| Scholarship support | - | 62,982 | 62,982 |
| Faculty support | - | 12,463 | 12,463 |
| Program support | - | 25,834 | 25,834 |
| Total endowment funds | 188,883 | 295,644 | 484,527 |
| Split-interest agreements and perpetual trusts | 1,686 | 26,343 | 28,029 |
| Student loan funds | 12,854 | 3,897 | 16,751 |
| Gifts and other unexpended revenues | | | |
| Acquisition of building and equipment | - | 11,271 | 11,271 |
| Instruction, research, and institutional support | - | 7,224 | 7,224 |
| Undesignated | 94,863 | - | 94,863 |
| | $ 298,286 | $ 344,379 | $ 642,665 |

## 16. Related Parties

### Prescott Holdings, LLC ("Prescott Holdings")

Prescott Holdings was formed to develop land in the Gateway Park area of Worcester. The University had a 12.5% interest and accounts for its investment at cost. During the year ended June 30, 2016, property owned by Prescott Holdings was sold and there were no outstanding mortgages or construction notes payable for which the University had entered into limited guarantees.

### 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, 2018 and 2017, funds held for others in the consolidated statements of financial position include Alumni Association assets of $3,053,000 and $2,964,000, respectively.

## 17. Commitments and Contingencies

### Construction Contracts

For the years ended June 30, 2018 and 2017, the University had contracted for various renovations and construction projects across campus totaling approximately $15,254,000 and $42,449,000 respectively.

### 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, 2018 and 2017, the University had unfunded commitments of approximately $59,768,000 and $64,352,000, respectively, that can be called through fiscal year 2030. 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 for the next five years under these agreements as of June 30, 2018, are approximately as follows (in thousands):

| | |
|---|---|
| 2019 | 3,056 |
| 2020 | 2,889 |
| 2021 | 2,828 |
| 2022 | 2,834 |
| 2023 | 2,359 |
| Thereafter | 8,025 |

Rental expense was approximately $2,733,000 and $2,119,000 for the years ended June 30, 2018 and 2017, respectively.

**Guarantees**
The University has guaranteed commercial loans with an outstanding amount of approximately $1,935,000 to seven fraternities. These loans are collateralized by real property owned by the fraternities.

**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.

**Self-insured Medical Claims**
The University is self-insured for medical claims and is a member of a captive insurer providing stop-loss insurance to cover plan expenses in excess of certain limits. Management believes insurance claims that have occurred as of June 30, 2018 and 2017 but not yet reported or paid have been adequately reserved.

**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, increasing 2.5% annually. 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. In April 2015, the PILOT agreement was amended to increase the voluntary payment by an additional $130,000 annually, also increasing 2.5% annually.

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.

## 18. Subsequent Events

Management has evaluated subsequent events for the period after June 30, 2018 through November 7, 2018, the date the financial statements were posted to the University's website, and determined that there have been no other subsequent events that would require recognition in the financial statements or disclosure in the notes of the financial statements.