

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

Worcester Polytechnic Institute

June 30, 2023 and 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Worcester Polytechnic Institute

Opinion

We have audited the consolidated financial statements of Worcester Polytechnic Institute (the "University"), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other matter

The consolidated financial statements of Worcester Polytechnic Institute as of and for the year ended June 30, 2022 were audited by other auditors who expressed an unmodified opinion on those consolidated financial statements in their report dated November 16, 2022.

Responsibilities of management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Boston, Massachusetts
January 11, 2024

Worcester Polytechnic Institute

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,
(in thousands)

	2023	2022
Assets		
Cash and cash equivalents	\$ 10,891	\$ 9,012
Accounts receivable, net	13,715	17,232
Contributions receivable, net	28,804	26,433
Funds held under bond agreements	-	8,885
Prepaid expenses and other assets	10,005	9,637
Student loans receivable, net	16,581	16,072
Beneficial interest in trusts	16,474	16,846
Investments	704,487	640,714
Land, buildings and equipment, net	518,519	505,979
Total assets	\$ 1,319,476	\$ 1,250,810
Liabilities		
Accounts payable and accrued liabilities	\$ 28,027	\$ 30,728
Deposits and deferred revenue	11,901	11,491
Lease liabilities	67,748	27,873
Liabilities under split-interest agreements	5,482	6,003
Funds held for others	5,381	5,601
Asset retirement obligations	1,128	1,278
Refundable government loan funds	2,527	3,601
Bonds and notes payable	396,120	395,225
Interest rate agreements	1,875	3,391
Total liabilities	520,189	485,191
Net assets		
Without donor restrictions	350,722	348,630
With donor restrictions		
Time or purpose	194,772	172,324
Perpetual	253,793	244,665
Total net assets	799,287	765,619
Total liabilities and net assets	\$ 1,319,476	\$ 1,250,810

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

Worcester Polytechnic Institute
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2023
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Tuition and fees, net	\$ 201,932	\$ -	\$ 201,932
Other educational activities	2,970	-	2,970
Contributions	4,611	4,307	8,918
Contract and exchange transactions	47,047	-	47,047
Investment income on endowment and similar funds	9,654	87	9,741
Net realized gains on endowment used for operations	7,832	7,822	15,654
Other investment income	3,303	640	3,943
Sales and services of auxiliary enterprises	41,256	-	41,256
Other	8,067	-	8,067
	<hr/>	<hr/>	<hr/>
Total revenues	326,672	12,856	339,528
Net assets released from restrictions	<hr/>	<hr/>	<hr/>
	11,368	(11,368)	-
	<hr/>	<hr/>	<hr/>
Total revenues and other support	338,040	1,488	339,528
Operating expenses			
Instruction and department research	146,170	-	146,170
Sponsored research and other sponsored programs	53,323	-	53,323
External relations	13,555	-	13,555
Institution and academic support	68,114	-	68,114
Student services	30,563	-	30,563
Auxiliary enterprises	43,433	-	43,433
	<hr/>	<hr/>	<hr/>
Total operating expenses	355,158	-	355,158
	<hr/>	<hr/>	<hr/>
Change in net assets from operating activities	(17,118)	1,488	(15,630)
Nonoperating activities			
Net realized and unrealized gains on investments	23,718	29,915	53,633
Net realized losses on endowment used for operations	(7,832)	(7,822)	(15,654)
Net unrealized losses on beneficial interest in trusts	-	(275)	(275)
Change in value of split-interest agreements	(31)	(205)	(236)
Contributions restricted for long-term investment	-	10,807	10,807
Change in value of interest rate agreements	1,023	-	1,023
	<hr/>	<hr/>	<hr/>
Change in net assets from nonoperating activities	16,878	32,420	49,298
Net assets released from restrictions	<hr/>	<hr/>	<hr/>
	2,332	(2,332)	-
	<hr/>	<hr/>	<hr/>
Total change in net assets from nonoperating activities and releases from restrictions	19,210	30,088	49,298
	<hr/>	<hr/>	<hr/>
Total change in net assets	2,092	31,576	33,668
Net assets			
Beginning of year	<hr/>	<hr/>	<hr/>
	348,630	416,989	765,619
	<hr/>	<hr/>	<hr/>
End of year	\$ 350,722	\$ 448,565	\$ 799,287

The accompanying notes are an integral part of this consolidated financial statement.

Worcester Polytechnic Institute
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2022
(in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating revenues			
Tuition and fees, net	\$ 197,960	\$ -	\$ 197,960
Other educational activities	2,317	-	2,317
Contributions	5,071	3,550	8,621
Contract and exchange transactions	41,950	-	41,950
Investment income on endowment and similar funds	4,174	89	4,263
Net realized gains on endowment used for operations	10,404	10,065	20,469
Other investment income	1,150	705	1,855
Sales and services of auxiliary enterprises	38,749	-	38,749
Other	12,619	-	12,619
	<u>314,394</u>	<u>14,409</u>	<u>328,803</u>
Total revenues			
Net assets released from restrictions	12,593	(12,593)	-
	<u>326,987</u>	<u>1,816</u>	<u>328,803</u>
Total revenues and other support			
Operating expenses			
Instruction and department research	132,387	-	132,387
Sponsored research and other sponsored programs	46,694	-	46,694
External relations	12,292	-	12,292
Institution and academic support	54,639	-	54,639
Student services	27,630	-	27,630
Auxiliary enterprises	49,053	-	49,053
	<u>322,695</u>	<u>-</u>	<u>322,695</u>
Total operating expenses			
Change in net assets from operating activities	<u>4,292</u>	<u>1,816</u>	<u>6,108</u>
Nonoperating activities			
Net realized and unrealized losses on investments	(18,159)	(22,878)	(41,037)
Net realized losses on endowment used for operations	(10,404)	(10,065)	(20,469)
Net unrealized losses on beneficial interest in trusts	-	(2,391)	(2,391)
Change in value of split-interest agreements	204	398	602
Contributions restricted for long-term investment	-	15,394	15,394
Net gains on interest rate agreements	3,452	-	3,452
	<u>(24,907)</u>	<u>(19,542)</u>	<u>(44,449)</u>
Change in net assets from nonoperating activities			
Net assets released from restriction	<u>8,824</u>	<u>(8,824)</u>	<u>-</u>
	<u>(16,083)</u>	<u>(28,366)</u>	<u>(44,449)</u>
Total change in net assets from nonoperating activities and releases from restrictions			
Total change in net assets	<u>(11,791)</u>	<u>(26,550)</u>	<u>(38,341)</u>
Net assets			
Beginning of year	<u>360,421</u>	<u>443,539</u>	<u>803,960</u>
End of year	<u>\$ 348,630</u>	<u>\$ 416,989</u>	<u>\$ 765,619</u>

The accompanying notes are an integral part of this consolidated financial statement.

Worcester Polytechnic Institute
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended June 30,
(in thousands)

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ 33,668	\$ (38,341)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion	20,897	30,060
Provision for uncollectible receivables	708	(394)
Loss on disposals of land, buildings, and equipment	117	168
Net realized and unrealized losses (gains) on investments	(59,750)	36,649
Change in value of interest rate agreements	(1,643)	(4,144)
Contributions other than cash	(19)	(4,790)
Contributions restricted for long-term investment	(10,807)	(15,395)
Proceeds from sale of donated securities	1,272	5,084
Changes in assets and liabilities:		
Accounts receivable	3,680	(3,032)
Contributions receivable	(2,818)	(1,769)
Prepaid expenses and other assets	(367)	(2,158)
Accounts payable and accrued liabilities	(5,381)	(22,229)
Deposits and deferred revenue	410	633
Operating Lease Liabilities	39,874	13,658
Split-interest agreements	(521)	(1,196)
Funds held for others	(221)	(21)
Asset retirement obligations	(150)	88
Refundable government loan funds	(1,075)	(1,479)
	(15,794)	29,733
Total adjustments		
Net cash provided by (used in) operating activities	17,874	(8,608)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	41,766	76,748
Purchase of investments	(47,046)	(97,926)
Purchase of land, buildings, and equipment	(32,924)	(67,851)
Disbursement of loans to students	(3,309)	(3,516)
Repayment of loans from students	2,764	3,023
	(38,749)	(89,522)
Net cash used in investing activities		
Cash flows from financing activities		
Contributions restricted for long-term investment	10,807	15,395
Realized loss on interest rate agreements	126	5
Proceeds from long-term debt	-	848
Proceeds from short-term borrowing	19,999	-
Repayment of long-term debt	(17,063)	(8,959)
	13,869	7,289
Net cash provided by financing activities		
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(7,006)	(90,841)
Cash, cash equivalents, and funds available under bond agreements		
Beginning of year	17,897	108,738
End of year	\$ 10,891	\$ 17,897
Supplemental disclosures of cash flow information:		
Interest paid	\$ 12,905	\$ 16,589
Contributed securities	1,272	4,325
Gift in kind	486	129
Purchases of buildings and equipment included in accounts payable	2,097	4,765
Leased equipment	4,957	5,747

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

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

NOTE 1 - ORGANIZATION

Worcester Polytechnic Institute (the "University"), founded in 1865, is the nation's third oldest private technological university. Over 7,900 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 90 foreign countries.

NOTE 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 operates a University owned parking garage located in the Gateway Park area of Worcester.

Gateway Park, LLC ("Gateway")

Gateway holds a ground lease for University owned property 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.

ASSISTments Foundation, Inc. ("TAF")

TAF is a not-for-profit corporation that is a Type 1 Supporting Organization to the University that supports the ASSISTments program at the University.

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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 change in value of 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.

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

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

collected after one year are recorded at the present value of estimated future cash flows. The discount rates used range from approximately 0.5% to 3.7%. 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, 2023 and 2022, deferred financing costs, net totaled approximately \$2,624,000 and \$2,816,000, respectively. Amortization expense for the years ended June 30, 2023 and 2022 was approximately \$192,000 and \$205,000, respectively. The estimated amortization expense for deferred financing costs for the next five years is approximately \$101,000 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 a 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

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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 fair 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 statement 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.

Finance leases are recorded at their present value at the inception of the lease. Leases for property and equipment are amortized on the straight-line basis over the shorter period of the lease term or the estimated useful life of the equipment. Amortization expense related to leases is included in depreciation in the consolidated statement of activities.

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.

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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.

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 0.4% to 11.2%.

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

The University receives sponsored program funding from various governmental and corporate sources. The funding may represent a reciprocal transaction in exchange for an equivalent benefit in return, or it may be a nonreciprocal transaction in which the resources provided are for the benefit of the University, the funding organization's mission, or the public at large.

Revenues from exchange transactions are recognized as performance obligations are satisfied, which in most cases are as related costs are incurred.

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Revenues from nonexchange transactions (contributions) may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid. Revenues from conditional nonexchange transactions are recognized when the barrier is satisfied.

In 2023 and 2022, sponsored programs revenue earned from governmental sources total \$37,830,000 and \$34,497,000, respectively. Indirect costs recovered on federally sponsored programs are based on predetermined reimbursement rates, which are stated as a percentage and distributed based on the modified total direct costs incurred. The University negotiates its federal indirect rate with its cognizant federal agency. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsors. Funds received for sponsored research activity are subject to audit. Based upon information currently available, management believes that any liability resulting from such audits will not materially affect the financial position or operations of the University.

Tuition and Fee Revenue

The University recognizes revenue from student tuition and fees within the fiscal year in which educational services are provided. Institutional aid, in the form of scholarships and grants-in-aid, includes amounts funded by the endowment, research funds, and gifts, and reduces the published price of tuition for students receiving such aid. As such, institutional aid is referred to as a tuition discount and represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student. Institutional aid provided to students was \$127,865,000 in 2023 and \$122,801,000 in 2022.

The University offers a summer term that spans two reporting periods. Payments of tuition and housing for the summer terms are recognized as performance obligations are met. Because the academic term spans two reporting periods, a portion of the payments are deferred at June 30, 2023 and 2022.

Auxiliary Services Revenue

Auxiliary services exist to furnish goods or services to students, faculty, staff, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services provided.

Auxiliary services revenue includes revenues from contracts with customers to provide student housing and dining facilities.

Payments for these services are due approximately one week prior to the start of the academic term for undergraduate students and on the first of each month for graduate students. Dining plans are not offered during the summer terms. Performance obligations for housing and dining services are delivered over the academic terms. Consequently, revenue from housing and dining services is recognized ratably as services are rendered.

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE 3 - ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consist of the following at June 30 (in thousands):

	2023	2022
Sponsored research	\$ 9,784	\$ 6,381
Student receivables	3,326	2,960
Other receivables	2,059	9,119
	15,169	18,460
Less:		
Allowance for doubtful accounts	(1,454)	(1,228)
	\$ 13,715	\$ 17,232

NOTE 4 - CONTRIBUTIONS RECEIVABLE, NET

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

	2023	2022
In one year or less	\$ 9,615	\$ 7,530
Between one and five years	23,348	22,616
	32,963	30,146
Less:		
Discount to present value	(1,723)	(1,374)
Allowance for doubtful contributions	(2,436)	(2,339)
	\$ 28,804	\$ 26,433

As of June 30, 2023 and 2022, the University has approximately \$115,412,000 and \$113,434,000, respectively, of conditional promises to give that are not recognized as assets in the accompanying consolidated statements of financial position.

NOTE 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, 2023 and 2022, student loans represented 1.3% and 1.3% of total assets, respectively.

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Student loans receivable consist of the following at June 30 (in thousands):

	2023			2022		
	Federal	Institutional	Total	Federal	Institutional	Total
Student loans receivable	\$ 2,333	\$ 14,642	\$ 16,975	\$ 3,360	\$ 13,071	\$ 16,431
Less: allowance for doubtful accounts						
Beginning of year	-	(359)	(359)	(150)	(313)	(463)
Decrease (increases)	-	(35)	(35)	-	(46)	(46)
Write-offs	-	-	-	150	-	150
End of year	-	(394)	(394)	-	(359)	(359)
Student loans receivable, net	<u>\$ 2,333</u>	<u>\$ 14,248</u>	<u>\$ 16,581</u>	<u>\$ 3,360</u>	<u>\$ 12,712</u>	<u>\$ 16,072</u>

Historically the University participated in the Federal Perkins Loan Program revolving loan program. Congress did not renew the program after September 30, 2017 and no disbursements were permitted after June 30, 2018. The University has elected to continue to collect on the loans and return the federal portion collected on an annual basis. Funds advanced by the Federal government and their share of student loan activity totals \$2,527,000 and \$3,601,000 at June 30, 2023 and 2022, respectively.

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

	1-60 Days	60-90 Days	90+ Days	Total Past Due
June 30, 2023	\$ 5	\$ 6	\$ 793	\$ 804
June 30, 2022	\$ 5	\$ 7	\$ 847	\$ 859

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.

NOTE 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 (in thousands):

	2023	2022
Fair value, beginning of year	\$ 16,846	\$ 19,697
Net realized losses	(275)	(2,391)
Distributions, net	(97)	(460)
Fair value, end of year	<u>\$ 16,474</u>	<u>\$ 16,846</u>

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE 7 - INVESTMENTS

Investments at June 30, 2023 are as follows (comparative totals are included for 2022) (in thousands):

	2023			2022
	Endowment and Similar Funds	Split-Interest Agreements	Total	Total
Cash and cash equivalents	\$ 2,823	\$ 424	\$ 3,247	\$ 9,709
Equity securities	60,380	10,118	70,498	39,549
Fixed income securities	88,402	2,403	90,805	60,550
Alternative investments				
Equity funds	327,953	-	327,953	301,709
Fixed income funds	66,538	-	66,538	71,136
Private equity funds	100,883	-	100,883	98,470
Real estate	44,563	-	44,563	59,591
Total investments	<u>\$ 691,542</u>	<u>\$ 12,945</u>	<u>\$ 704,487</u>	<u>\$ 640,714</u>

Investments at June 30, 2023 are as follows (in thousands):

	2023				Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV Practical Expedient	
Cash and cash equivalents	\$ 3,247	\$ -	\$ -	\$ -	\$ 3,247
Equity securities	70,498	-	-	-	70,498
Fixed income securities	90,805	-	-	-	90,805
Alternative investments					
Equity funds	-	-	-	327,953	327,953
Fixed income funds	-	-	-	66,538	66,538
Private equity funds	-	-	-	100,883	100,883
Real estate	-	-	-	44,563	44,563
Total investments	<u>\$ 164,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 539,937</u>	<u>\$ 704,487</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

	2022				
	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	\$ 9,709	\$ -	\$ -	\$ -	\$ 9,709
Equity securities	39,549	-	-	-	39,549
Fixed income securities	60,550	-	-	-	60,550
Alternative investments					
Equity funds	-	-	-	301,709	301,709
Fixed income funds	-	-	-	71,136	71,136
Private equity funds	-	-	1,087	97,383	98,470
Real estate	-	-	12,447	47,144	59,591
Total investments	\$ 109,808	\$ -	\$ 13,534	\$ 517,372	\$ 640,714

Fair values of equity, fixed income and commodity securities are generally based on published fair 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 fair 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 claw backs, and the fair value of the limited partnership's investment portfolio or other assets and liabilities. The values assigned to investments in limited partnerships 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

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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, 2023.

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 not valued at NAV (in thousands):

Real Estate Investment	2023	2022	Valuation Technique	Unobservable Input	Range
Commercial real estate, Florida	\$ -	\$ -	Income capitalization	Capitalization Rate	8.0% - 14.0%
Leased land, Worcester, MA	-	5,250	Income capitalization	Capitalization Rate	3.96% - 6.1%
Parking garage, Worcester, MA	-	3,475	Income capitalization	Capitalization Rate	8.25%
Undeveloped land, Worcester, MA	-	1,740	Sales comparison	Price per acre Comparability adjustments	\$0.7M - \$1.4M -20% - 30%
Undeveloped land, Worcester, MA	-	1,600	Sales comparison	Price per acre Comparability adjustments	\$0.7M - \$1.4M -5% - + 45%
Residential real estate, US	-	382	Sales comparison	Price per square foot	\$365K - \$405K
	<u>\$ -</u>	<u>\$ 12,447</u>			

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Alternative investments consist of noncontrolling, 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 (in thousands):

2023						
Asset Class	Strategy	Fair Value	Remaining Life	Unfunded Commitment	Redemption Terms	Redemption Restrictions
Absolute Return - Market Neutral	Global equity and fixed income funds in market neutral categories	\$ 62,759	Up to 21 Years	\$ -	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	100,883	Up to 8 Years	47,070	Private equity structure with no ability to redeem.	Not redeemable
Directional Hedge	Global long/short equity funds	95,374	Up to 28 Years	-	Redemption terms range from quarterly with 60 days notice to every five years with 90 days notice.	No lock-up provisions
Public Equity	Primarily in long only equity, tracks performance or relevant index	207,368	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.
Fixed Income	Primarily in domestic bonds, tracks performance	28,990	No limit	-	Daily redemption with a notice period ranging from 0 to 2 business days.	
Real Estate	US real estate		Up to 4 Years		Private equity structure with no ability to redeem.	Not redeemable
		<u>44,563</u>		<u>24,550</u>		
		<u>\$ 539,937</u>		<u>\$ 76,795</u>		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

2022						
Asset Class	Strategy	Fair Value	Remaining Life	Unfunded Commitment	Redemption Terms	Redemption Restrictions
Absolute Return - Market Neutral	Global equity and fixed income funds in market neutral categories	\$ 65,640	Up to 23 Years	\$ -	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	97,383	Up to 9 Years	46,745	Private equity structure with no ability to redeem.	Not redeemable
Directional Hedge	Global long/short equity funds	101,637	Up to 29 Years	-	Redemption terms range from quarterly with 60 days notice to every five years with 90 days notice.	No lock-up provisions
Public Equity	Primarily in long only equity, tracks performance or relevant index	175,943	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.
Fixed Income	Primarily in domestic bonds, tracks performance	29,625	No limit	-	Daily redemption with a notice period ranging from 0 to 2 business days.	
Real Estate	US real estate		Up to 4 Years		Private equity structure with no ability to redeem.	Not redeemable
		<u>47,144</u>		<u>26,431</u>		
		<u>\$ 517,372</u>		<u>\$ 73,176</u>		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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

	Private Equity Funds	Real Estate	Total
Fair value, June 30, 2021	\$ 1,087	\$ 16,260	\$ 17,347
Transfers out	-	(2,150)	(2,150)
Net realized and unrealized losses	-	(1,663)	(1,663)
Fair value, June 30, 2022	1,087	12,447	13,534
Net realized and unrealized gains/(losses)	(1,087)	4,812	3,725
Sales and settlements	-	(17,259)	(17,259)
Fair value, June 30, 2023	\$ -	\$ -	\$ -

In the consolidated statements of activities for the years ended June 30, 2023 and 2022, net realized and unrealized gains and losses on Level 3 investments are included in nonoperating net realized and unrealized losses on investments.

Endowment Income and Spending

In addition to current yield (interest, dividends, and net rental income), the University has interpreted Massachusetts state law to allow for the utilization of capital appreciation on donor-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 donor-restricted endowment funds. For financial reporting purposes, current yield and capital appreciation attributed to donor-restricted endowment funds are considered restricted until appropriated for use, and the historic dollar value of such funds is considered restricted in perpetuity.

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:

<u>Asset Allocation Policy</u>	<u>Target %</u>
Global equity	50
Private equity / venture capital	20
Private credit	5
Flexible capital	10
Fixed income	2.5
Real assets	12.5

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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 4.6% 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, 2023 and 2022, respectively.

The spending rule distributions for fiscal years 2023 and 2022, respectively, were \$0.295 and \$0.293 per time weighted unit, comprised of, respectively, \$0.112 and \$0.050 of income and \$0.183 and \$0.243 of distributions from current and accumulated net gains. At June 30, 2023, there were a total of 87,820,560 units in the pooled endowment and similar funds, each having a fair value of \$7.195 of the total units. Of those units, 52,202,082 were owned by endowment funds and 35,618,478 were owned by internally designated funds, respectively. At June 30, 2022, there were a total of 86,501,700 units in the pooled endowment and similar funds, each having a fair value of \$6.813 of the total units. Of those units, 50,931,597 were owned by endowment funds and 35,570,108 were owned by internally designated funds, respectively.

A summary of the fair value per unit and the income per time-weighted unit for the pooled investments held as of June 30, 2023 and in each of the prior four years is as follows:

	Income Per Time-Weighted Unit	Fair Value Per Unit
2023	\$ 0.112	\$ 7.195
2022	0.500	6.813
2021	0.031	7.441
2020	0.039	6.003
2019	0.059	6.359
2018	0.061	6.338

To the extent that accumulated realized and unrealized losses are in excess of accumulated gains for donor-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 donor-restricted endowment funds of \$7,882,000 is less than the historic dollar value of such funds of \$8,040,000 ("underwater funds") equaling approximately \$158,000 and \$900,000 at June 30, 2023 and 2022, respectively. The University is under no legal obligation to fund the deficiencies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Endowment and Similar Funds

The endowment and similar funds' net asset composition as of June 30, 2023 and 2022 and the changes for the years then ended are as follows (in thousands):

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted	\$ -	\$ 382,920	\$ 382,920
Quasi-endowment	245,845	-	245,845
	<u>245,845</u>	<u>382,920</u>	<u>628,765</u>
Balance, June 30, 2022	232,329	354,778	587,107
Investment return	29,403	29,676	59,079
Contributions	1,683	6,288	7,971
Appropriated for expenditure	<u>(17,570)</u>	<u>(7,822)</u>	<u>(25,392)</u>
Balance, June 30, 2023	<u>\$ 245,845</u>	<u>\$ 382,920</u>	<u>\$ 628,765</u>

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted	\$ -	\$ 354,778	\$ 354,778
Quasi-endowment	232,329	-	232,329
	<u>232,329</u>	<u>354,778</u>	<u>587,107</u>
Balance, June 30, 2021	252,373	378,543	630,916
Investment return	(9,323)	(22,628)	(31,951)
Contributions	3,942	8,928	12,870
Appropriated for expenditure	<u>(14,663)</u>	<u>(10,065)</u>	<u>(24,728)</u>
Balance, June 30, 2022	<u>\$ 232,329</u>	<u>\$ 354,778</u>	<u>\$ 587,107</u>

Split-Interest Agreements

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

	2023	2022
Charitable remainder trusts	\$ 6,418	\$ 7,211
Charitable gift annuities	5,705	6,170
Pooled income funds	<u>822</u>	<u>978</u>
	<u>\$ 12,945</u>	<u>\$ 14,359</u>

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE 8 - LAND, BUILDINGS AND EQUIPMENT, NET

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

	2023	2022
Land and land improvements	\$ 43,575	\$ 32,056
Buildings and improvements	683,292	651,358
Equipment	150,744	144,211
Long-term lease assets	34,769	35,130
	912,380	862,755
Less: accumulated depreciation	(401,422)	(369,682)
Construction-in-progress	7,561	12,906
	\$ 518,519	\$ 505,979

Depreciation expense charged to operations was approximately \$31,693,000 and \$31,514,000 for the years ended June 30, 2023 and 2022, respectively. Net interest cost capitalized was \$0 and \$3,070,000 for the years ended June 30, 2023 and 2022, respectively.

NOTE 9 - LEASES

The University is a lessee or lessor of real estate and office space, as well as equipment. The University determines whether a contract is a lease at inception of the contract. When evaluating contracts for embedded leases, the University exercises judgement to determine if there is an explicit or implicit identified asset in the contract and if the University controls the use of that asset. Embedded leases are immaterial to the consolidated financial statements.

Certain real estate leases have renewal options and the lease term includes options to extend or terminate the lease when it is reasonably certain that the University will exercise that option.

Lease expense for lease payments is recognized on a straight-line basis over the term of the lease. Lease assets and liabilities are recognized based on the present value of lease payments over the lease term. The majority of the University's leases do not have a readily determinable implicit discount rate and in those cases the University uses its incremental borrowing rate to calculate the present value of lease payments. As a practical expedient, the University has made an accounting policy election for all asset classes not to separate lease components from nonlease components in the event that the agreement contains both. The University includes both lease and nonlease components for purposes of calculating the right-of-use asset and related lease liability. For finance leases, interest expense on the lease liability is recognized using the effective interest method and amortization of the right-to-use asset is recognized on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term.

During the year ended June 30, 2023, the University entered into a 40-year operating agreement with a third party to manage and upgrade the existing powerplant. This long-term utility agreement includes an upfront \$45 million payment and an exclusive right to sell to the University electricity, steam/hot water, and chilled water. Through this 40-year agreement the University agreed to sell certain utility assets to a newly formed entity, WPI Utility P3, LLC at a price of \$14,103,600 and to grant them the right to operate the utility systems for the duration of the agreement at a price of \$30,896,400.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

The University assessed the transaction as a sale leaseback transaction under Financial Accounting Standards Board Accounting Standards Codification 842 and concluded that ultimately the transaction did not meet the definition of a sale. Therefore, the University did not follow sale leaseback accounting. Instead, the University continued to recognize the fixed assets with their net book value of approximately \$2.6 million and continued depreciating them over their useful lives. Separately, the University recognized the cash received of \$45 million as an operating lease liability for the future payments to be made.

The table below presents certain information related to the lease costs for leases.

	2023	2022
Finance lease cost		
Amortization of leased assets	\$ 334	\$ 334
Interest on lease liabilities	548	95
Operating lease cost	4,503	3,098
Short-term and variable lease costs	4,828	3,044
Total lease cost	\$ 10,211	\$ 6,571

Supplemental financial position information related to operating and finance leases as of June 30, 2023 is as follows:

	Classification on the Statement of Financial Position	2023
Assets		
Operating lease assets	Land, buildings and equipment, net	\$ 20,004
Finance lease assets	Land, buildings and equipment, net	1,504
Total lease assets		21,508
Liabilities		
Lease liabilities	Operating lease liabilities	21,476
Finance leases	Operating lease liabilities	46,272
Total lease liabilities		\$ 67,748
Weighted-average remaining lease term		
Operating leases		5.1 years
Finance leases		85.6 years
Weighted-average discount rate		
Operating leases		3.13%
Finance leases		3.24%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

The table below presents supplemental cash flow information related to leases:

	2023
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows for operating leases	\$ 4,503
Operating cash flows for finance leases	1,524
	\$ 4,957

Future minimum lease payments under operating leases at June 30, 2023 is as follows:

Year Ending June 30,	Amount Due
2024	\$ 7,158
2025	7,005
2026	6,684
2027	6,509
2028	5,569
Thereafter	57,345
	90,270
Less: imputed interest	(22,522)
Total lease liabilities	\$ 67,748

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE 10 - BONDS AND NOTES PAYABLE

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

Purpose and Definition	Maturity Date	Interest Rate %	Original Issue	Amount Due Within One Year	Balance, June 30, 2023	Balance, June 30, 2022
Bonds payable						
MDFA 2008 Series A ⁽¹⁾	9/1/2035	Variable	\$ 54,815	\$ 2,440	\$ 31,345	\$ 33,730
MDFA 2014 Series ⁽¹⁾	9/1/2029	2.5-3.1	2,782	212	3,090	3,295
MDFA 2016 Series ⁽²⁾	9/1/2052	3.0-5.0	49,030	-	43,149	48,042
Worcester Polytechnic Institute 2016 Series ⁽¹⁾	9/1/2056	4.338	56,905	-	56,905	56,905
MDFA 2017A Series ⁽³⁾	9/1/2047	3.0-5.0	14,435	250	14,440	14,955
MDFA 2017B Series ⁽⁴⁾	9/1/2045	5.0	52,990	-	54,736	60,436
MDFA 2019 Series ⁽⁵⁾	9/1/2059	4.0-5.0	113,640	-	133,315	133,963
MDFA 2022 Series ⁽¹⁾	6/30/2042	2.2	42,540	1,050	41,557	42,540
Uncollateralized notes						
TD Bank	7/1/2023	Various	7,122	-	-	3,977
Capital lease obligations	Various	Various	-	92	205	195
Other short-term financing obligations	Various	Various	-	20,000	20,000	3
				24,044	398,743	398,041
Less: deferred financing costs, net of amortization				-	(2,623)	(2,816)
Total bonds and notes payable				<u>\$ 24,044</u>	<u>\$ 396,120</u>	<u>\$ 395,225</u>

- (1) The bonds, issued at par with no discount or premium, represent a general obligation of the University.
- (2) The bonds represent a general obligation of the University. The balance at June 30, 2023 includes a premium of approximately \$4,364,000.
- (3) The bonds represent a general obligation of the University. The balance at June 30, 2023 includes a premium of approximately \$2,005,000.
- (4) The bonds represent a general obligation of the University. The balance at June 30, 2023 includes a premium of approximately \$6,491,000.
- (5) The bonds represent a general obligation of the University. The balance at June 30, 2023 includes a premium of approximately \$19,770,000.

In compliance with the University's various bond indentures, funds held under bond agreements at June 30, 2022 included investments of approximately \$8,885,000 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):

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

<u>Year Ending June 30,</u>	<u>Amount Due</u>
2024	\$ 24,044
2025	3,808
2026	3,847
2027	4,007
2028	4,103
Thereafter	<u>326,304</u>
 Total cash payments	 366,113
 Premium	 <u>32,630</u>
	 <u>\$ 398,743</u>

In June 2022, the University refunded \$42,540,000 in the form of MDFA Revenue Bond Series 2022, formerly Series 2012 Bonds. The original 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 2022 bonds are fixed rate bonds payable in annual installments with principal payments ranging from \$983,000 to \$19,012,000 beginning June 30, 2023, and a fixed interest rate of 2.22%. The final maturity is June 30, 2042.

The University also has a \$50,000,000 bank revolving line of credit. The line of credit bears interest at an adjusted SOFR rate plus 1.25% per month on outstanding amounts. The balance outstanding was \$20,000,000 and \$0 for the years ended June 30, 2023 and 2022, respectively. Related interest expense was \$49,000 and \$0 for the years ended June 30, 2023 and 2022, respectively.

NOTE 11 - 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 obligations. The following summarizes the terms for each of these agreements as of June 30 (dollars in thousands):

	<u>Series 2008 A</u>		
	<u>Deutsche Bank AG</u>	<u>Barclays Bank PLC</u>	
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%	3.71%	
Rate paid by Counterparty	71% of one-month LIBOR	SOFR + 11.448 bps	
 <u>Fair Value Liability</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Total</u>
June 30, 2023	\$ 831	\$ 1,044	\$ 1,875
June 30, 2022	\$ 1,346	\$ 2,045	\$ 3,391

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

The net unrealized loss and gain that was recognized for the interest rate swap agreements for the years ended June 30, 2023 and 2022 was approximately a gain of \$1,023,000 and \$3,452,000, respectively, and has been recorded in as changes in value of interest rate agreements on the accompanying consolidated statements of activities. At June 30, 2023 and 2022, the fair value liability for interest rate swap agreements totaled \$1,875,000 and \$3,391,000, 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+. 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 A2/A, a combined fair value liability in excess of \$40 million will trigger a posting requirement for the Barclays Bank PLC agreements. The current combined debt and swap liability is \$33 million. The provisions with both counterparties provide that the liability threshold increases if the University's long-term credit ratings decline. At June 30, 2023, the University is not required to post collateral to its counterparties.

NOTE 12 - 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 \$10,495,000 and \$9,895,000 for the years ended June 30, 2023 and 2022, respectively. Contributions are based upon a percentage of the employees' compensation.

NOTE 13 - 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 (dollars in thousands):

	2023						
	Instruction and Research	Sponsored Research	Student Services	Auxiliary Enterprises	External Relations	Institution and Academic Support	Total
Wages and benefits	\$ 103,939	\$ 25,033	\$ 11,606	\$ 842	\$ 10,564	\$ 38,493	\$ 190,477
Operating expenses	28,294	22,651	11,142	31,347	2,856	24,169	120,459
Depreciation	9,112	4,598	5,182	7,499	117	4,997	31,505
Interest expense	4,825	1,041	2,633	3,745	18	455	12,717
	<u>\$ 146,170</u>	<u>\$ 53,323</u>	<u>\$ 30,563</u>	<u>\$ 43,433</u>	<u>\$ 13,555</u>	<u>\$ 68,114</u>	<u>\$ 355,158</u>

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

	2022						Total
	Instruction and Research	Sponsored Research	Student Services	Auxiliary Enterprises	External Relations	Institution and Academic Support	
Wages and benefits	\$ 103,155	\$ 22,306	\$ 12,252	\$ 6,220	\$ 9,873	\$ 37,351	\$ 191,157
Operating expenses	20,232	20,728	8,014	26,150	2,301	14,335	91,760
Depreciation	7,507	3,596	4,637	7,835	114	4,440	28,129
Interest expense	1,494	61	2,727	8,848	4	(1,485)	11,649
	<u>\$ 132,387</u>	<u>\$ 46,694</u>	<u>\$ 27,630</u>	<u>\$ 49,053</u>	<u>\$ 12,292</u>	<u>\$ 54,639</u>	<u>\$ 322,695</u>

External relations expenditures include approximately \$8,237,000 and \$7,651,000 of fundraising expenses for the years ended June 30, 2023 and 2022, respectively.

NOTE 14 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The following summarizes the financial assets available to meet the University's general expenditures, as of June 30, 2023:

	Resources Available at 6/30/23	Resources Appropriated by the Board and Available in FY 2024	Resources not Available Within 12 Months	Total
Financial assets available within 12 months				
Cash and cash equivalents	\$ 10,891	\$ -	\$ -	\$ 10,891
Accounts receivable, net	13,715	-	-	13,715
Forecasted payout on board designated endowments	-	16,878	-	16,878
Investments not subject to donor restrictions or board designations	-	10,621	-	10,621
Total financial assets available within 12 months	24,606	27,499	-	52,105
Financial assets not available for expenditures within 12 months				
Cash, cash equivalents and investments	-	-	704,487	704,487
Contributions not due within one year	28,804	-	-	28,804
Student loan receivables, net	-	-	16,581	16,581
Liquidity resources				
Bank line of credit (less balance outstanding as of June 30, 2023)	30,000	-	-	30,000
Total financial assets and other liquidity resources	<u>\$ 83,410</u>	<u>\$ 27,499</u>	<u>\$ 721,068</u>	<u>\$ 831,977</u>

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.

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

Included in financial assets not available for expenditure at June 30, 2023, the University had \$244,135,000 of board-designated endowments that, with the board's approval, could be made available for expenditures.

Of the University's investments, 58% are redeemable within 30 days, 22% may be redeemed either at future specified redemption dates or currently by incurring a penalty, and 20% are in real estate, private equities, 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.

NOTE 15 - NET ASSETS

Net assets consist of the following at June 30 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds			
Long-term investment (quasi - endowment)	\$ 245,845	\$ -	\$ 245,845
Original principal	-	249,221	249,221
Unspent income and appreciation			
Scholarship support	-	94,512	94,512
Faculty support	-	19,575	19,575
Program support	-	21,322	21,322
Total endowment funds	245,845	384,630	630,475
Split-interest agreements and perpetual trusts	1,414	22,224	23,638
Student loan funds	14,225	4,423	18,648
Gifts and other unexpended revenues			
Acquisition of building and equipment	-	1,100	1,100
Instruction, research and institutional support	-	36,188	36,188
Undesignated	89,238	-	89,238
	\$ 350,722	\$ 448,565	\$ 799,287
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds			
Long-term investment (quasi - endowment)	\$ 232,329	\$ -	\$ 232,329
Original principal	-	240,136	240,136
Unspent income and appreciation			
Scholarship support	-	80,253	80,253
Faculty support	-	16,166	16,166
Program support	-	18,223	18,233
Total endowment funds	232,329	354,778	587,107
Split-interest agreements and perpetual trusts	1,240	23,647	24,887
Student loan funds	13,862	4,341	18,203
Gifts and other unexpended revenues			
Acquisition of building and equipment	-	3,134	3,134
Instruction, research and institutional support	-	31,089	31,089
Undesignated	101,199	-	101,199
	\$ 348,630	\$ 416,989	\$ 765,619

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

NOTE 16 - RELATED PARTIES

The Alumni Association of Worcester Polytechnic Institute ("Alumni Association"), a separate 501(c)(3) organization, invests the majority of its funds in the University's endowment. At June 30, 2023 and 2022, funds held for others in the consolidated statements of financial position include Alumni Association assets of \$2,956,000 and \$2,986,000, respectively.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

Construction Contracts

For the years ended June 30, 2023 and 2022, the University had contracted for various renovations and construction projects across campus totaling approximately \$14,927,000 and \$18,150,000, 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, 2023 and 2022, the University had unfunded commitments of approximately \$76,795,000 and \$73,176,000, respectively, that can be called through fiscal year 2030. These commitments will be funded from the University's existing cash and investments.

Guarantees

The University has guaranteed commercial loans with an outstanding amount of approximately \$3,807,000 to six 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 statement 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 statement 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, 2023 and 2022 but not yet reported or paid have been adequately reserved.

Worcester Polytechnic Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022

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.

NOTE 18 - SUBSEQUENT EVENTS

Management has assessed subsequent events for the period from June 30, 2023 to January 11, 2024, the date the financial statements were issued, and has determined that no subsequent events necessitate recognition in the consolidated financial statements or disclosure in the notes of the consolidated financial statements, except as outlined below.

Under the terms of the Worcester Polytechnic Institute Taxable Bonds, Series 2016 bond agreement, the University is obligated to adhere to specific compliance covenants. This includes submitting the annual audited financial statements to the bond trustee within 180 days of year-end, which, for the year ended June 30, 2023, was December 27, 2023. As of December 27, 2023, the University was not in compliance with the required submission, as the audited financial statements had not yet been finalized for submission. On December 28, 2023, the University obtained a cure letter, stipulating that the annual audited financial statements must be submitted within 60 days of December 28, 2023, to regain compliance with the required covenant.