

# **Worcester Polytechnic Institute**

**Report on Federal Awards in Accordance with  
OMB Uniform Guidance**

**Year Ended June 30, 2018**

**Entity Identification Number: 04-2121659**

**Worcester Polytechnic Institute**  
**Index**  
**June 30, 2018 and 2017**

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**PART I**  
**FINANCIAL STATEMENTS**



## Report of Independent Auditors

To the Board of Trustees  
of Worcester Polytechnic Institute

### Report on the Consolidated Financial Statements

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 cash flows for the years then ended, and the related notes to the financial statements.

### *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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Worcester Polytechnic Institute'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 Worcester Polytechnic Institute'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 consolidated 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.

## ***Other Matters***

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2018 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2018 on our consideration of Worcester Polytechnic Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Worcester Polytechnic Institute's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*

Hartford, Connecticut  
November 7, 2018

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

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	2018	2017
<b>Assets</b>		
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	<u>\$ 1,017,131</u>	<u>\$ 986,536</u>
<b>Liabilities</b>		
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	<u>356,005</u>	<u>343,871</u>
<b>Net assets</b>		
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	<u>661,126</u>	<u>642,665</u>
Total liabilities and net assets	<u>\$ 1,017,131</u>	<u>\$ 986,536</u>

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
<b>Operating revenues</b>			
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
<b>Operating expenses</b>			
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
<b>Nonoperating</b>			
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
<b>Operating revenues</b>			
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
<b>Operating expenses</b>			
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
<b>Nonoperating</b>			
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
<b>Cash flows from operating activities</b>		
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
<b>Cash flows from investing activities</b>		
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)
<b>Cash flows from financing activities</b>		
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
<b>Supplemental disclosures of cash flow information</b>		
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.

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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#### 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.

# **Worcester Polytechnic Institute**

## **Notes to Consolidated Financial Statements**

### **June 30, 2018 and 2017**

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#### **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

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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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.

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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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.

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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#### **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.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

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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
	<u>8,429</u>	<u>6,842</u>
Less: Allowance for doubtful accounts	(739)	(587)
	<u>\$ 7,690</u>	<u>\$ 6,255</u>

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**4. Contributions Receivable**

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

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

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):

	<b>2018</b>			<b>2017</b>		
	<b>Federal Government Programs</b>	<b>Institutional Programs</b>	<b>Total</b>	<b>Federal Government Programs</b>	<b>Institutional Programs</b>	<b>Total</b>
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	<u>(150)</u>	<u>(246)</u>	<u>(396)</u>	<u>(150)</u>	<u>(267)</u>	<u>(417)</u>
Student loans receivable, net	<u>\$ 10,239</u>	<u>\$ 8,193</u>	<u>\$ 18,432</u>	<u>\$ 10,704</u>	<u>\$ 8,968</u>	<u>\$ 19,672</u>



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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):

	<u>1-60 days</u>	<u>60-90 days</u>	<u>90+ days</u>	<u>Total past due</u>
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):

	<b>2018</b>	<b>2017</b>
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	<u>\$ 18,295</u>	<u>\$ 19,146</u>

**7. Investments**

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

	<u>2018</u>			<b>2017</b>
	<b>Endowment and Similar Funds</b>	<b>Split-Interest Agreements</b>	<b>Total</b>	<b>Total</b>
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	<u>\$ 525,976</u>	<u>\$ 17,729</u>	<u>\$ 543,705</u>	<u>\$ 526,713</u>

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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	<u>\$ 247,795</u>	<u>\$ -</u>	<u>\$ 28,607</u>	<u>\$ 267,303</u>	<u>\$ 543,705</u>

	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	<u>\$ 267,755</u>	<u>\$ -</u>	<u>\$ 27,822</u>	<u>\$ 231,136</u>	<u>\$ 526,713</u>

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

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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
	<u>\$ 26,748</u>	<u>\$ 26,820</u>			

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):

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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 markets 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		<u>\$ 267,303</u>		<u>\$ 59,767</u>		

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		<u>\$ 231,136</u>		<u>\$ 68,812</u>		

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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):

	<b>Equity Funds</b>	<b>Fixed Income Funds</b>	<b>Private Equity Funds</b>	<b>Real Estate</b>	<b>Total</b>
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:

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<u>Asset Allocation Policy</u>	<u>Target %</u>
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:

	<b>Income Per Time- Weighted Unit</b>	<b>Fair Value Per Unit</b>
<b>2018</b>	\$ 0.061	\$ 6.338
<b>2017</b>	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.

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**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):

	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor restricted	\$ -	\$ 304,792	\$ 304,792
Quasi-endow ment	195,479	-	195,479
<b>Total</b>	<b>\$ 195,479</b>	<b>\$ 304,792</b>	<b>\$ 500,271</b>
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)
<b>Balance, June 30, 2018</b>	<b>\$ 195,479</b>	<b>\$ 304,792</b>	<b>\$ 500,271</b>
	<b>2017</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor restricted	\$ -	\$ 295,644	\$ 295,644
Quasi-endow ment	188,883	-	188,883
<b>Total</b>	<b>\$ 188,883</b>	<b>\$ 295,644</b>	<b>\$ 484,527</b>
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)
<b>Balance, June 30, 2017</b>	<b>\$ 188,883</b>	<b>\$ 295,644</b>	<b>\$ 484,527</b>

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**Split-Interest Agreements**

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

	<b>2018</b>	<b>2017</b>
Charitable gift annuities	\$ 8,150	\$ 8,151
Charitable remainder trusts	8,216	7,916
Pooled income funds	<u>1,363</u>	<u>1,495</u>
	<u>\$ 17,729</u>	<u>\$ 17,562</u>

**8. Land, Buildings and Equipment**

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

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

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:



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<b>Purpose and Definition</b>	<b>Maturity Date</b>	<b>Interest Rate %</b>	<b>Original Issue</b>	<b>Amount Due Within One Year</b>	<b>Balance, June 30, 2018</b>	<b>Balance, June 30, 2017</b>
<b>Bonds payable</b>						
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
<b>Uncollateralized notes</b>						
TD Bank	7/1/2023	Variable	7,122	356	5,401	5,757
<b>Capital lease obligations</b>						
	Various	Various		1,333	4,035	3,772
<b>Total</b>				<b>4,324</b>	<b>283,488</b>	<b>281,896</b>
<b>Less: deferred financing costs, net of amortization</b>					<b>(2,391)</b>	<b>(2,466)</b>
Total bonds and notes payable				<b>\$ 4,324</b>	<b>\$ 281,097</b>	<b>\$ 279,430</b>

- (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.

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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		<u>245,962</u>
Total cash payments	\$	265,966
Premium		<u>17,522</u>
	\$	<u>283,488</u>

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.

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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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.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

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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):

<b>Series 2008 A&amp;B</b>				
	<b>Deutsche Bank AG</b>	<b>Barclays Bank PLC</b>		
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 w hen LIBOR is $\geq$ 4.00%		
		SIFMA Municipal Sw ap Index w hen LIBOR is < 4.00%		
<b>Series 2008 A&amp;B</b>				
<b>Fair Value Liability</b>	<b>Deutsche Bank AG</b>	<b>Barclays Bank PLC</b>	<b>Total, net</b>	
June 30, 2018	\$ 2,214	\$ 3,735	\$ 5,949	
June 30, 2017	\$ 2,957	\$ 5,325	\$ 8,282	

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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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):

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

	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
<b>Total</b>	<b>120,809</b>	<b>25,403</b>	<b>23,612</b>	<b>28,253</b>	<b>12,180</b>	<b>50,464</b>	<b>260,721</b>

	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
<b>Total</b>	<b>115,302</b>	<b>25,684</b>	<b>23,450</b>	<b>27,426</b>	<b>11,526</b>	<b>46,611</b>	<b>249,999</b>

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
<b>Financial assets available within 12 months:</b>				
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
<b>Total financial assets available within 12 months</b>	<b>73,978</b>	<b>23,512</b>		<b>97,490</b>
<b>Financial assets not available for expenditures within 12 months:</b>				
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
<b>Liquidity resources</b>				
Bank line of credit (no balance outstanding as of June 30, 2018)	25,000			25,000
<b>Total financial assets and other liquidity resources</b>	<b>98,978</b>	<b>23,512</b>	<b>564,473</b>	<b>686,963</b>

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

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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 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.

**15. Net Assets**

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

	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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	<u>195,479</u>	<u>304,792</u>	<u>500,271</u>
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
	<u>\$ 307,008</u>	<u>\$ 354,118</u>	<u>\$ 661,126</u>

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
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	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
	<u>\$ 298,286</u>	<u>\$ 344,379</u>	<u>\$ 642,665</u>

**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.



# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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#### 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.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
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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.

**Worcester Polytechnic Institute**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2018 and 2017**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Total Expenditures</b>	<b>Amounts Passed Through to Subrecipients</b>
<b>STUDENT FINANCIAL AID CLUSTER</b>				
<b>U.S. Department of Education</b>				
Supplemental Educational Opportunity Grants	84.007		\$ 542,465	\$ -
William D. Ford Federal Direct Stafford Loan Program	84.3		24,554,878	-
Work Study Program	84.033		385,282	-
Pell Grant Program	84.063		2,179,332	-
Perkins Loan Program				
Outstanding Loans as of July 1, 2017	84.038		10,853,743	-
New Loans issued during 2018	84.038		1,435,383	-
Administrative Cost Allowance	84.038		71,769	-
Total Student Financial Aid			<b>40,022,852</b>	<b>-</b>
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>				
<b>Department of Agriculture</b>				
Partnership Agreements	10.7		102,457	-
Pass-Through Programs From				
University of Illinois - Urbana-Champaign	10.310	2017-05022/2018-6701-27913	29,846	-
Total Department of Agriculture			<b>132,303</b>	<b>-</b>
<b>Department of Commerce</b>				
<b>National Institute for Standards and Technology</b>				
Science, Technology, Business and/or Education Outreach	11.620		23,306	-
Pass-Through Programs From				
University of California, San Diego	11.609	32369262 / 70NANB17H211	44,395	-
Total National Institute for Standards and Technology			<b>67,701</b>	<b>-</b>
<b>Department of Defense</b>				
<b>Defense Advanced Research Projects Agency</b>				
Research and Technology Development	12.910		18,287	-
Pass-Through Programs From				
Virginia Polytechnic Institute & State University	12.910	450553-19C96/N660011824030	36,669	-
Total Defense Advanced Research Projects Agency			<b>54,956</b>	<b>-</b>
<b>Department of the Air Force</b>				
Air Force Defense Research Sciences Program	12.800		414,571	-
Pass-Through Programs From				
National Research Council	12.RD	AFS15-1586	37,271	-
MIT Lincoln Laboratory	12.RD	7000391955	65,390	-
Leidos, Inc.	12.RD	PO10200226/FA945-17-D-0070	99,960	-
Ohio Aerospace Institute	12.RD	OAI-CAPST-18050/FA8650-09-2-72	6,021	-
Total Department of the Air Force			<b>623,213</b>	<b>-</b>
<b>Department of the Army</b>				
Basic Scientific Research	12.431		2,604,359	-
Pass-Through Programs To				
University of Massachusetts Amherst	12.4	16-TMP-00-215461-02	-	168,273
Pennsylvania State University	12.4	16-TMP-01-215461-03	-	91,853
Regents of the University of California, Irvine	12.4	18-TMP-01-215468	-	61,706
University of Massachusetts Amherst	12.4	16-TMP-00-215461-03	-	409,295
Pass-Through Programs From				
Brown University	12.4	00001033/W911NF1510562	54,292	-
Craig Hospital	12.420	1WP1 / W81XWH-15-2-0078	20,760	-
Total Department of the Army			<b>2,679,411</b>	<b>731,127</b>
<b>Department of the Navy</b>				
Basic and Applied Scientific Research	12.300		121,702	-
Pass-Through Programs From				
ALMMIII	12.630	0002B-8/N00014-14-2-0002	45,296	-
ALMMIII	12.630	0002C-8/N00014-14-2-0002	183,799	-
ALMMIII	12.300	001/N00014-14-2-0002	1,228	-
Total Department of the Navy			<b>352,025</b>	<b>-</b>
Total Department of Defense			<b>3,709,605</b>	<b>731,127</b>

The accompanying notes are an integral part of this schedule.

**Worcester Polytechnic Institute**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2018 and 2017**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Total Expenditures</b>	<b>Amounts Passed Through to Subrecipients</b>
<b>Department of Education</b>				
Graduate Assistance in Areas of National Need	84.200		285,975	-
Education Research, Development and Dissemination	84.305		342,160	
Pass-Through Programs To				
College of the Holy Cross	84.31	16-216370-00		10,717
Teaching with Data LLC	84.31	18-216410-01		55,097
Teaching with Data LLC	84.31	18-216420-01		21,947
Pass-Through Programs From				
SRI International	84.305	PD15783/R305A170137	176,348	-
American Institute for Research	84.305	0440300001/R305A170243	149,655	-
WestEd	84.305	S15883/R305A170137	27,156	-
Total Department of Education			<b>981,294</b>	<b>87,761</b>
<b>Department of Energy</b>				
Pass-Through Programs To				
A123 Systems LLC	81.RD	16-218580-00	-	29,177
Battery Resources	81.RD	18-218670-02	-	9,348
Pass-Through Programs From				
Mass. Institute of Technology - MIT	81.049	5710003766/DE-SC0012555	47,938	-
Florida International University	81.089	800008420-01/DE-FE0030585	4,774	-
Boston University School of Public Health	81.089	450002520/DE-FE0031205	18,064	-
Argonne National Laboratory	81.RD	4F-3036/DE-AC02-06CH11357	41,615	-
The United States Advanced Battery Consortium LLC (USABC)	81.RD	16-2175-ABC/DE-EE0006250	97,926	-
Sandia National Laboratories	81.RD	1679802/DEAC0494AL85000	60,102	-
BwXT Pantex, LLC.	81.RD	PTX01000005646/IDENA0001942	270,625	-
Missouri University of Science & Technology	81.RD	000057897/DE-NA000062	25,442	-
The United States Advanced Battery Consortium LLC (USABC)	81.RD	18-2210-ABC/DE-EE0006250	15,011	-
Missouri University of Science & Technology	81.RD	N000258110/61932-01	34,542	-
Total Department of Energy			<b>616,039</b>	<b>38,525</b>
<b>Department of Health and Human Services</b>				
<b>Agency for Healthcare Research and Quality</b>				
Research on Healthcare Costs, Quality and Outcomes (B)	93.226		19,898	-
Pass-Through Programs To				
University of Massachusetts Medical Center	93.23	15-210840-00	-	4,889
Total Agency for Healthcare Research and Quality			<b>19,898</b>	<b>4,889</b>
<b>National Institutes of Health</b>				
Arthritis, Musculoskeletal and Skin Diseases Research (B)	93.846		270,552	-
Biomedical Research and Research Training (B, M)	93.859		1,242,443	-
Cancer Cause and Prevention Research	93.393		184,606	-
Cancer Detection and Diagnosis Research (B)	93.394		571,229	-
Cardiovascular Diseases Research	93.837		595,867	-
Discovery and Applied Research for Technological Innovations to Improve Human	93.288		123,303	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		372,179	-
Research and Training in Complementary and Integrative Health	93.213		93,695	-
Research Related to Deafness and Communication Disorders	93.173		329,160	-
Trans-NIH Research Support	93.310		55,485	-
Pass-Through Programs To				
University of Conn. Health Center	93.86	15-210780-00	-	17,107
University of Conn. Health Center	93.86	16-210890-00	-	119,827
California Baptist University	93.86	18-211080-01	-	17,046
Acoustic MedSystems, Inc.	93.39	14-210730-04	-	135,860
Albany Medical Center	93.39	14-210730-01	-	41,568
University of Massachusetts Medical	93.39	14-210730-01	-	134,000
University Health Network	93.84	16-210740-01	-	77,193
Dartmouth College	93.85	16-210950-01	-	28,427
Simbex	93.85	16-210950-03	-	11,329
Indiana University	93.85	16-210950-02	-	12,762
Simbex	93.85	17-210990-02	-	13,709

The accompanying notes are an integral part of this schedule.

**Worcester Polytechnic Institute**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2018 and 2017**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Total Expenditures</b>	<b>Amounts Passed Through to Subrecipients</b>
<b>National Institutes of Health</b>				
Pass-Through Programs From				
Pennsylvania State University	93.859	4840W/PIDHHS0076/HR01GM10007E	1,639	-
University of Massachusetts Medical School	93.837	R01HL122302-01A1	82,952	-
University of Massachusetts Medical School	93.242	W/A00320040/RFS2016011	12,627	-
Icahn School of Medicine at Mount Sinai	93.859	0255-0651-4609/2R01GM072853-09	101,639	-
University of Massachusetts Medical School	93.853	W/A00484705/OSP2017069	30,882	-
Liberating Technologies, Inc.	93.865	2R42HD076519-02	395,748	-
Broad Institute of MIT and Harvard	93.855	5U19AI1108186 5035424-55000967	45,267	-
Massachusetts Eye and Ear Infirmary	93.173	2300163-01/HR01DC016079-01	126,185	-
Pennsylvania State University	93.859	5641W/PIDHHS1679/HR11GM1216790	121,150	-
Case Western Reserve University	93.286	RES512577 / IR01EB023907-01	85,477	-
Butler Hospital	93.279	9452-8304	17,142	-
Dartmouth College	93.286	R999 / IR01EB025747-01	4,152	-
University of Connecticut	93.837	206746/R01HL122302	7,185	-
Broad Institute of MIT and Harvard	93.855	5035431-550000134 / U19A	11,176	-
Total National Institutes of Health			<b>4,881,740</b>	<b>608,828</b>
Total Department of Health and Human Services			<b>4,901,638</b>	<b>613,717</b>
<b>Department of Homeland Security</b>				
Assistance to Firefighters Grant	97.044		3,866	-
Pass-Through Programs To				
Fire Protection Research Foundation	97.04	14-219970-01	-	1,910
Total Department of Homeland Security			<b>3,866</b>	<b>1,910</b>
<b>Department of Interior</b>				
US Department of Interior	15.RD		40,605	-
Total Department of Interior			<b>40,605</b>	-
<b>Department of Transportation</b>				
Pass-Through Programs From				
University of New Hampshire	20.RD	14-051/DTFH61-13-C-00022 C:20.	15,826	-
Department of Transportation - ME	20.RD	VC1000097384	39,457	-
Total Department of Transportation			<b>55,283</b>	-
<b>National Aeronautics and Space Administration</b>				
Space Operations	43.007		153,208	-
Cross Agency Support	43.01		74,227	-
Pass-Through Programs To				
Pennsylvania State University	43.01	15-213520-00	-	1,139
Pass-Through Programs From				
University of Vermont	43.012	30175SUB52002	49,394	-
Total National Aeronautics and Space Administration			<b>276,829</b>	<b>1,139</b>
<b>National Science Foundation</b>				
Biological Sciences	47.074		755,334	-
Computer and Information Science and Engineering	47.070		2,123,763	-
Education and Human Resources	47.076		1,448,540	-
Engineering Grants	47.041		1,427,068	-
Mathematical and Physical Sciences	47.049		964,130	-
Office of International Science and Engineering	47.079		29,846	-
Pass-Through Programs To				
Curators of the University of Missouri	47.07	16-203730-00	-	27,222
Western Washington University	47.070	15-203230-00	-	34,103
UMass Donahue Institute	47.08	12-202930-01	-	12,623
Data Driven Instruction LLC	47.08	16-203740-00	-	14,300
Curators of the University of Missouri	47.04	16-204140-01	-	31,758
Ohio State University	47.05	17-204160-01	-	(19)

The accompanying notes are an integral part of this schedule.

**Worcester Polytechnic Institute**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2018 and 2017**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>CFDA Number</b>	<b>Entity Identifying Number</b>	<b>Total Expenditures</b>	<b>Through to Subrecipients</b>
<b>National Science Foundation</b>				
Pass-Through Programs From				
Brown University	47.070	00000690/CCF-1408745	19,663	-
Brown University	47.070	00001085/1714431	7,719	-
Columbia University	47.076	513135/DRL1252297	11,801	-
Harrisburg University of Science and Technology	47.076	/11224488	124	-
Harrisburg University of Science and Technology	47.076	SENCER/HARRIS.UNIV-NSF	(308)	-
Mathematical Association of America	47.049	3-8-710-949/DMS-1345499	65,859	-
Mathematical Association of America	47.076	3-8-710-892/DMS-1722275	1,165	-
Northeastern University	47.070	502526-78050 / 1736185	5,305	-
Research Foundation of SUNY	47.076	73299-118962-3/1613217	899	-
University of Connecticut	47.076	133185/1619629	39,187	-
University of Connecticut	47.076	133185 PART OF 204231	15,261	-
University of Illinois - Chicago	47.076	2013-03309/DRL-1316736	738	-
University of Illinois - Urbana-Champaign	47.041	083140-16245	30,223	-
University of Louisville	47.049	ULRF 14-0582-02/DMR-1410678	34,270	-
University of Massachusetts Amherst	47.041	16-009066 A/CBET-1511367	69,176	-
University of Northern Texas	47.041	GF30045-1/1807734	10,873	-
University of Washington	47.070	UWSC8797	55,519	-
University of Washington	47.070	UWSC9973 / 1736596	2,023	-
Wright State University	47.076	670457-1/1624581	8,353	-
Total National Science Foundation			<b>7,126,531</b>	<b>119,987</b>
<b>Nuclear Regulatory Commission</b>				
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.01		187,473	-
Total Nuclear Regulatory Commission			<b>187,473</b>	-
<b>Total Research and Development Cluster</b>			<b>18,099,167</b>	<b>1,594,166</b>
<b>OTHER PROGRAMS</b>				
<b>Department of Defense</b>				
Pass-Through Programs From				
Institute of International Education	12.36	2603-WPI-33/H98210-13-2-0001	68,040	-
Institute of International Education	12.36	2603-WPI-33GD051PD3/H98210132	156,783	-
Total Department of Defense			<b>224,823</b>	-
<b>Department of Education</b>				
Undergraduate International Studies and Foreign Language	84.02		61,405	-
Total Department of Education			<b>61,405</b>	-
<b>Department of State</b>				
Academic Exchange Programs - Undergraduate Programs	19.01		10,056	-
Total Department of State			<b>10,056</b>	-
<b>National Endowment for the Humanities</b>				
Promotion of the Humanities_ Teaching and Learning Resources and Curriculum	45.162		34,264	-
Total National Endowment for the Humanities			<b>34,264</b>	-
<b>National Security Agency</b>				
GenCyber Grants Program	12.9		99,182	-
Total National Security Agency			<b>99,182</b>	-
<b>Nuclear Regulatory Commission</b>				
U.S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006		21,253	-
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008		3,790	-
Total Nuclear Regulatory Commission			<b>25,043</b>	-
<b>Total Other Programs</b>			<b>454,773</b>	-
<b>Total Expenditures of Federal Awards</b>			<b>\$ 58,576,792</b>	<b>\$ 1,594,166</b>

The accompanying notes are an integral part of this schedule.

# Worcester Polytechnic Institute

## Notes to Schedule of Expenditures of Federal Awards

### June 30, 2018 and 2017

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#### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule"), includes the federal grant activity of Worcester Polytechnic Institute (the "University") for the year ended June 30, 2018 and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* or with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards* (Uniform Guidance), as applicable. As the Schedule presents only a selected portion of the expenditures of the University, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of the University. Direct awards are listed in total and pass-through awards are listed individually (with pass-through numbers when available) on the Schedule. Negative amounts represent adjustments or credits to amounts reported as expenditures in prior years in the normal course of business. CFDA numbers are presented where available. Federal Loan Programs are represented on the Schedule in accordance with Uniform Guidance Part 200.502 *Basis of determining federal awards expended* to include previous balance of amounts outstanding and current loans dispersed for which the University is the lender.

#### 2. Indirect Costs

The University applies its predetermined approved facilities and administrative rate when charging indirect costs to federal awards rather than the 10% de minimus cost rate as described in Section 200.414 of the Uniform Guidance.

#### 3. Federal Student Loan Programs

The University processed \$1,435,383 of new loans under the Perkins Loan Program (CFDA # 84.038) for the year ended June 30, 2018. The new loans were funded by repayments of previously issued Perkins Loans. The balance of Perkins Loans outstanding at June 30, 2018 was \$10,389,693. The Supplemental Educational Opportunity Grants and Work Study Program line items include administrative allowances.

In addition, the University processed \$24,554,878 of loans under the William D. Ford Federal Direct Stafford Loan Program (CFDA 84.268) for the year ended June 30, 2018.

**PART II**  
**REPORTS ON INTERNAL CONTROLS AND COMPLIANCE**





## **Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees  
of Worcester Polytechnic Institute

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Worcester Polytechnic Institute and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2018.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Worcester Polytechnic Institute's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Worcester Polytechnic Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Worcester Polytechnic Institute's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Worcester Polytechnic Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item-Finding No.18-001 – Failure to report disbursement data in a timely manner.

## **Worcester Polytechnic Institute's Response to Findings**

Worcester Polytechnic Institute's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Worcester Polytechnic Institute's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PricewaterhouseCoopers LLP*

Hartford, Connecticut  
November 7, 2018



**Report of Independent Auditors on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on Internal  
Control Over Compliance in Accordance with the Uniform Guidance**

To the Board of Trustees  
Of Worcester Polytechnic Institute

**Report on Compliance for Each Major Federal Program**

We have audited Worcester Polytechnic Institute's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Worcester Polytechnic Institute's major federal programs for the year ended June 30, 2018. Worcester Polytechnic Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Worcester Polytechnic Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Worcester Polytechnic Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Worcester Polytechnic Institute's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Worcester Polytechnic Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item Finding No. 18-001. Our opinion on each major federal program is not modified with respect to this matter.

Worcester Polytechnic Institute's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. Worcester Polytechnic Institute's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.


### **Report on Internal Control Over Compliance**

Management of Worcester Polytechnic Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Worcester Polytechnic Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Worcester Polytechnic Institute's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
Hartford, Connecticut  
January 4, 2019

**PART III**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Worcester Polytechnic Institute**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2018**

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued	Unmodified	
Internal control over financing reporting		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Federal Awards**

Internal control over major programs		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported

Type of auditor's report issued on compliance for major programs	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
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Identification of major programs:

**CFDA Number**

Various

**Name of Federal Program or Cluster**

Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B federal programs	\$1,757,304
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Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
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**Worcester Polytechnic Institute**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2018**

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**Section II – Financial Statement Finding**

No findings to report.

**Section III – Federal Awards Findings and Questioned Costs**

**Finding No. 18-001 – Failure to report direct loan disbursement in a timely manner**

**Criteria**

Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) within 15 days of disbursement (*OMB No. 1845-0021*).

**Condition**

We selected 25 disbursements to test the timely submission of records to the DLSS via the COD system. We noted that 1 disbursement was not reported within 15 days.

**Cause**

Management failed to submit the records to the DLSS in a timely manner due to staffing constraints.

**Effect**

The selected disbursement was not reported in a timely manner to the DLSS via the COD system.

**Questioned cost**

There are no questioned costs as the finding pertains to reporting of disbursements to the DLSS.

**Recommendation**

We recommend management ensure all disbursements are reported to the DLSS within the 15 days.

**Views of Responsible Officials and Planned Corrective Action Plan**

See management's views and corrective action plan.

**PART IV**  
**SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS**



**Worcester Polytechnic Institute  
Status of Prior Year Audit Findings  
Year Ended June 30, 2018**

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**Summary of Status of Prior Year Findings**

**Prior Year Finding No. 17-001**

The University did not submit record of a disbursement to the DLSS via the COD system within the required 15 days.

**Status**

Staffing levels have been increased over prior year and training remains an ongoing area of focus for the Student Financial Aid department. Improvements have been seen in the overall timeliness of submission and further training and support will be provided to those responsible for submission.

**PART V**

**VIEWS OF RESPONSIBLE OFFICIALS  
AND CORRECTIVE ACTION PLAN**

**Worcester Polytechnic Institute  
Management's Corrective Action Plan  
Year Ended June 30, 2018**

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**Management's Corrective Action Plan**

**Finding No. 18-001 – Failure to report direct loan disbursement in a timely manner**

The University acknowledges that notification to the DLSS via the COD system was delayed when disbursing certain direct loans. Given that this is a recurring finding, the University has since engaged with additional external resources to identify and improve training and processes within the Student Financial Aid office, in addition to addressing staffing constraints that have occurred in the prior years.

**Contact Person**

Patrick Hitchcock, University Controller

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508-831-5577