

# **Worcester Polytechnic Institute**

**Consolidated Financial Statements  
June 30, 2011 and 2010**

**Worcester Polytechnic Institute**  
**Index**  
**June 30, 2011 and 2010**

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|   | <b>Page(s)</b> |
|---|----------------|
| Report of Independent Auditors.....                 | 1              |
| Consolidated Statements of Financial Position ..... | 2              |
| Consolidated Statements of Activities .....         | 3-4            |
| Consolidated Statements of Cash Flows.....          | 5              |
| Notes to Consolidated Financial Statements.....     | 6-28           |



## Report of Independent Auditors

To the Board of Trustees of  
Worcester Polytechnic Institute

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of Worcester Polytechnic Institute and its subsidiaries (the "University") at June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

October 31, 2011

**Worcester Polytechnic Institute**  
**Consolidated Statements of Financial Position**  
**June 30, 2011 and 2010 (in thousands)**

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|  | 2011       | 2010       |
|--|------------|------------|
| <b>Assets</b>                            |            |            |
| Cash and cash equivalents                | \$ 28,947  | \$ 20,048  |
| Accounts receivable, net                 | 4,927      | 4,622      |
| Contributions receivable, net            | 11,580     | 17,570     |
| Funds held under bond agreements         | 34,600     | 52,993     |
| Prepaid expenses and other assets        | 5,975      | 4,918      |
| Student loans receivable, net            | 22,999     | 22,551     |
| Beneficial interest in trusts            | 17,977     | 16,074     |
| Investments                              | 401,702    | 333,515    |
| Land, buildings and equipment, net       | 212,252    | 191,305    |
|  | <hr/>      | <hr/>      |
| Total assets                             | \$ 740,959 | \$ 663,596 |
| <b>Liabilities</b>                       |            |            |
| Accounts payable and accrued liabilities | 20,370     | 17,931     |
| Deposits and deferred revenue            | 7,706      | 7,889      |
| Split-interest agreements                | 10,237     | 9,532      |
| Funds held for others                    | 3,494      | 2,857      |
| Asset retirement obligations             | 5,107      | 5,049      |
| Refundable government loan funds         | 6,792      | 6,792      |
| Bonds and notes payable                  | 202,682    | 204,450    |
| Interest rate agreements                 | 7,593      | 8,882      |
|  | <hr/>      | <hr/>      |
| Total liabilities                        | 263,981    | 263,382    |
| <b>Net assets</b>                        |            |            |
| Unrestricted                             | 239,085    | 197,122    |
| Temporarily restricted                   | 100,812    | 78,613     |
| Permanently restricted                   | 137,081    | 124,479    |
|  | <hr/>      | <hr/>      |
| Total net assets                         | 476,978    | 400,214    |
|  | <hr/>      | <hr/>      |
| Total liabilities and net assets         | \$ 740,959 | \$ 663,596 |

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

**Worcester Polytechnic Institute**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2011 (in thousands)**

|  | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Total      |
|--|--------------|---------------------------|---------------------------|------------|
| <b>Operating revenues</b>                                      |              |                           |                           |            |
| Tuition and fees   | \$ 151,259   | \$ -                      | \$ -                      | \$ 151,259 |
| Less: Unrestricted student aid                                 | 49,994       | -                         | -                         | 49,994     |
| Endowed scholarships   | 5,619        | -                         | -                         | 5,619      |
| Externally funded student aid                                  | 3,425        | -                         | -                         | 3,425      |
| Total student aid  | 59,038       | -                         | -                         | 59,038     |
| Net tuition and fees   | 92,221       | -                         | -                         | 92,221     |
| Other educational activities                                   | 11,709       | -                         | -                         | 11,709     |
| Contributions  | 2,685        | 1,675                     | -                         | 4,360      |
| Contract and exchange transactions                             | 23,378       | -                         | -                         | 23,378     |
| Investment income on endowment and similar funds               | 1,930        | -                         | 87                        | 2,017      |
| Net realized gains on endowment used for operations            | 8,624        | 7,385                     | -                         | 16,009     |
| Other investment income  | 2,698        | 517                       | 48                        | 3,263      |
| Sales and services of auxiliary enterprises                    | 19,639       | -                         | -                         | 19,639     |
| Other  | 1,844        | -                         | -                         | 1,844      |
| Total revenues   | 164,728      | 9,577                     | 135                       | 174,440    |
| Net assets released from restriction                           | 11,693       | (11,693)                  | -                         | -          |
| Total revenues and other support                               | 176,421      | (2,116)                   | 135                       | 174,440    |
| <b>Operating expenses</b>                                      |              |                           |                           |            |
| Instruction and department research                            | 60,966       | -                         | -                         | 60,966     |
| Sponsored research and other sponsored programs                | 15,899       | -                         | -                         | 15,899     |
| External relations   | 7,517        | -                         | -                         | 7,517      |
| Institution and academic support                               | 32,717       | -                         | -                         | 32,717     |
| Student services   | 9,096        | -                         | -                         | 9,096      |
| Operation and maintenance of plant                             | 27,410       | -                         | -                         | 27,410     |
| Auxiliary enterprises  | 8,837        | -                         | -                         | 8,837      |
| Total operating expenses                                       | 162,442      | -                         | -                         | 162,442    |
| Change in net assets from operating activities                 | 13,979       | (2,116)                   | 135                       | 11,998     |
| <b>Nonoperating</b>  |              |                           |                           |            |
| Net realized and unrealized gains on investments               | 34,620       | 31,714                    | -                         | 66,334     |
| Net realized gains on endowment used for operations            | (8,624)      | (7,385)                   | -                         | (16,009)   |
| Provision for underwater funds                                 | 3,243        | (3,243)                   | -                         | -          |
| Net unrealized gains on beneficial interest in trusts          | -            | 558                       | 1,252                     | 1,810      |
| Change in value of split-interest agreements                   | (496)        | (326)                     | -                         | (822)      |
| Contributions  | -            | 2,997                     | 11,215                    | 14,212     |
| Net realized and unrealized losses on interest rate agreements | (759)        | -                         | -                         | (759)      |
| Change in net assets from nonoperating activities              | 27,984       | 24,315                    | 12,467                    | 64,766     |
| Total change in net assets                                     | 41,963       | 22,199                    | 12,602                    | 76,764     |
| Net assets, beginning of year                                  | 197,122      | 78,613                    | 124,479                   | 400,214    |
| Net assets, end of year  | \$ 239,085   | \$ 100,812                | \$ 137,081                | \$ 476,978 |

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

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

|  | Unrestricted | Temporarily Restricted | Permanently Restricted | Total      |
|--|--------------|------------------------|------------------------|------------|
| <b>Operating revenues</b>                                      |              |                        |                        |            |
| Tuition and fees   | \$ 139,443   | \$ -                   | \$ -                   | \$ 139,443 |
| Less: Unrestricted student aid                                 | 45,121       | -                      | -                      | 45,121     |
| Endowed scholarships   | 5,763        | -                      | -                      | 5,763      |
| Externally funded student aid                                  | 4,973        | -                      | -                      | 4,973      |
| Total student aid  | 55,857       | -                      | -                      | 55,857     |
| Net tuition and fees   | 83,586       | -                      | -                      | 83,586     |
| Other educational activities                                   | 10,361       | -                      | -                      | 10,361     |
| Contributions  | 1,958        | 1,260                  | -                      | 3,218      |
| Contract and exchange transactions                             | 21,900       | -                      | -                      | 21,900     |
| Investment income on endowment and similar funds               | 2,246        | 18                     | 93                     | 2,357      |
| Net realized gains on endowment used for operations            | 8,465        | 7,770                  | -                      | 16,235     |
| Other investment income  | 3,011        | 242                    | 47                     | 3,300      |
| Sales and services of auxiliary enterprises                    | 18,155       | -                      | -                      | 18,155     |
| Other  | 2,032        | -                      | -                      | 2,032      |
| Total revenues   | 151,714      | 9,290                  | 140                    | 161,144    |
| Net assets released from restriction                           | 18,573       | (18,573)               | -                      | -          |
| Total revenues and other support                               | 170,287      | (9,283)                | 140                    | 161,144    |
| <b>Operating expenses</b>                                      |              |                        |                        |            |
| Instruction and department research                            | 56,180       | -                      | -                      | 56,180     |
| Sponsored research and other sponsored programs                | 14,246       | -                      | -                      | 14,246     |
| External relations   | 6,718        | -                      | -                      | 6,718      |
| Institution and academic support                               | 31,347       | -                      | -                      | 31,347     |
| Student services   | 9,042        | -                      | -                      | 9,042      |
| Operation and maintenance of plant                             | 26,052       | -                      | -                      | 26,052     |
| Auxiliary enterprises  | 8,149        | -                      | -                      | 8,149      |
| Total operating expenses                                       | 151,734      | -                      | -                      | 151,734    |
| Change in net assets from operating activities                 | 18,553       | (9,283)                | 140                    | 9,410      |
| <b>Nonoperating</b>  |              |                        |                        |            |
| Net realized and unrealized gains on investments               | 14,663       | 13,426                 | 128                    | 28,217     |
| Net realized gains on endowment used for operations            | (8,465)      | (7,770)                | -                      | (16,235)   |
| Provision for underwater funds                                 | 728          | (728)                  | -                      | -          |
| Net unrealized gains on beneficial interest in trusts          | -            | 203                    | 2,385                  | 2,588      |
| Change in value of split-interest agreements                   | 54           | 22                     | -                      | 76         |
| Contributions  | -            | 3,430                  | 8,491                  | 11,921     |
| Net realized and unrealized losses on interest rate agreements | (4,213)      | -                      | -                      | (4,213)    |
| Change in net assets from nonoperating activities              | 2,767        | 8,583                  | 11,004                 | 22,354     |
| Total change in net assets                                     | 21,320       | (700)                  | 11,144                 | 31,764     |
| Net assets, beginning of year                                  | 175,802      | 79,313                 | 113,335                | 368,450    |
| Net assets, end of year  | \$ 197,122   | \$ 78,613              | \$ 124,479             | \$ 400,214 |

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

**Worcester Polytechnic Institute**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2011 and 2010 (in thousands)**

|  | 2011             | 2010             |
|--|------------------|------------------|
| <b>Cash flows from operating activities</b>  |                  |                  |
| Change in net assets   | \$ 76,764        | \$ 31,764        |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |                  |                  |
| Depreciation, amortization, and accretion  | 14,808           | 13,791           |
| Provision for uncollectible receivables  | 1,011            | (185)            |
| Net realized and unrealized (gains) losses on investments                                  | (68,144)         | (30,805)         |
| Net unrealized loss on interest rate agreements  | 759              | 4,213            |
| Contributions other than cash  | (9,885)          | (745)            |
| Contributions restricted for long-term investment  | (4,480)          | (11,084)         |
| Changes in assets and liabilities:   |                  |                  |
| Accounts receivable  | (647)            | (572)            |
| Contributions receivable   | 1,041            | 2,532            |
| Prepaid expenses and other assets  | (988)            | 273              |
| Accounts payable and accrued liabilities   | (5,135)          | 865              |
| Deposits and deferred revenue  | (113)            | 636              |
| Asset retirement obligations   | (60)             | (97)             |
| Split-interest agreements  | 249              | (1,026)          |
| Funds held for others  | 341              | 36               |
| Total adjustments  | <u>(71,243)</u>  | <u>(22,168)</u>  |
| Net cash provided by operating activities  | <u>5,521</u>     | <u>9,596</u>     |
| <b>Cash flows from investing activities</b>  |                  |                  |
| Proceeds from sales and maturities of investments  | 144,008          | 81,978           |
| Purchase of investments  | (135,410)        | (69,252)         |
| Purchase of land, buildings, and equipment   | (26,801)         | (16,124)         |
| Proceeds from bonds deposited with trustees  | -                | (56,074)         |
| Use of funds held under bond agreements  | 18,393           | 3,535            |
| Disbursement of loans to students  | (3,812)          | (3,947)          |
| Repayment of loans from students   | 3,028            | 3,038            |
| Net cash used in investing activities  | <u>(594)</u>     | <u>(56,846)</u>  |
| <b>Cash flows from financing activities</b>  |                  |                  |
| Contributions restricted for long-term investment  | 9,096            | 6,543            |
| Deferred financing costs   | -                | (604)            |
| Realized loss on interest rate agreements  | (2,048)          | (2,068)          |
| Proceeds from long-term debt   | -                | 63,931           |
| Repayment of long-term debt  | (3,076)          | (11,645)         |
| Net cash provided by financing activities  | <u>3,972</u>     | <u>56,157</u>    |
| Net increase in cash and cash equivalents  | <u>8,899</u>     | <u>8,907</u>     |
| Cash and cash equivalent at beginning of year  | <u>20,048</u>    | <u>11,141</u>    |
| Cash and cash equivalents at end of year   | <u>\$ 28,947</u> | <u>\$ 20,048</u> |
| <b>Supplemental disclosures of cash flow information</b>                                   |                  |                  |
| Interest paid  | \$ 9,708         | \$ 6,304         |
| Contributed securities   | \$ 9,422         | \$ -             |
| Gifts-in-kind  | \$ 335           | \$ 480           |
| Purchases of buildings and equipment included in accounts payable                          | \$ 9,885         | \$ 3,888         |
| Increase in investment funded through debt   | \$ -             | \$ 7,862         |
| Debt financed acquisition (see Note 13)  | \$ -             | \$ 1,766         |
| Leased equipment   | \$ 1,365         | \$ 803           |

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

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2011 and 2010

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#### 1. Organization

Worcester Polytechnic Institute (the "University"), founded in 1865, is the nation's third oldest private engineering university. Approximately 4,500 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 70 foreign countries.

#### 2. Summary of Significant Accounting Policies

##### **Basis of Financial Statement Presentation**

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

##### *Permanently Restricted*

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

##### *Temporarily Restricted*

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

##### *Unrestricted*

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

##### **Consolidation**

The accompanying consolidated financial statements include the accounts of the University and its wholly owned or controlled subsidiaries as follows.

##### **Newgate Properties, LLC ("Newgate")**

Newgate owns and operates an approximately 124,600 square foot life sciences and bioengineering facility located in the Gateway Park area of Worcester. The University occupies approximately 90% of the new facility with the remaining 10% being leased to other entities.

##### **Gateway Park, LLC ("Gateway")**

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

##### **Washburn Park, Inc. ("Washburn")**

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

##### **75 Grove Street, LLC ("Grove Street")**

In 2008, the University purchased a vacant parcel of land for future development purposes from Gateway Park, LLC located at 75 Grove Street in Worcester.



# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2011 and 2010

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Intercompany accounts and transactions have been eliminated.

#### **Classifications**

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

#### **Operating and Nonoperating Activities**

In the consolidated statements of activities, the University has defined its primary activities between operating and nonoperating. Operating activities consist primarily of activities supporting the educational mission and purpose of the University. Nonoperating activities consist primarily of unspent appreciation on endowment, change in value of split-interest agreements, net contributions for endowment and capital use, and gains or losses on interest rate swap agreements.

#### **Use of Estimates in the Preparation of Financial Statements**

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

#### **Financial Instruments**

The University uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the University's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

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

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

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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

The University's financial assets and liabilities that are measured at fair value on a recurring basis are classified using the above fair value hierarchy at June 30, 2011 and 2010 as follows (in thousands):

| <b>2011</b>                      |                   |                   |                   |                   |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Assets</b>                    | <b>Level 1</b>    | <b>Level 2</b>    | <b>Level 3</b>    | <b>Total</b>      |
| Funds held under bond agreements | \$ 34,600         | \$ -              | \$ -              | \$ 34,600         |
| Investments                      |                   |                   |                   |                   |
| Cash and cash equivalents        | 4,127             | -                 | -                 | 4,127             |
| Equity securities                | 137,464           | 7,530             | -                 | 144,994           |
| Fixed income securities          | 42,365            | 295               | -                 | 42,660            |
| Commodities                      | 7,960             | 8,736             | -                 | 16,696            |
| Alternative investments          |                   |                   |                   |                   |
| Equity funds                     | -                 | -                 | 93,234            | 93,234            |
| Fixed income funds               | -                 | -                 | 30,972            | 30,972            |
| Private equity funds             | -                 | -                 | 39,315            | 39,315            |
| Real estate                      | -                 | 7,652             | 22,052            | 29,704            |
| Total investments                | <u>191,916</u>    | <u>24,213</u>     | <u>185,573</u>    | <u>401,702</u>    |
| Beneficial interest in trusts    | -                 | -                 | 17,977            | 17,977            |
| Total assets at fair value       | <u>\$ 226,516</u> | <u>\$ 24,213</u>  | <u>\$ 203,550</u> | <u>\$ 454,279</u> |
| <b>Liabilities</b>               |                   |                   |                   |                   |
| Interest rate agreements         | <u>\$ -</u>       | <u>\$ (3,644)</u> | <u>\$ (3,949)</u> | <u>\$ (7,593)</u> |
| <b>2010</b>                      |                   |                   |                   |                   |
| <b>Assets</b>                    | <b>Level 1</b>    | <b>Level 2</b>    | <b>Level 3</b>    | <b>Total</b>      |
| Funds held under bond agreements | \$ 52,993         | \$ -              | \$ -              | \$ 52,993         |
| Investments                      |                   |                   |                   |                   |
| Cash and cash equivalents        | 3,944             | -                 | -                 | 3,944             |
| Equity securities                | 99,459            | 12,125            | -                 | 111,584           |
| Fixed income securities          | 27,325            | 12,691            | -                 | 40,016            |
| Commodities                      | 5,910             | 4,392             | -                 | 10,302            |
| Alternative investments          |                   |                   |                   |                   |
| Equity funds                     | -                 | -                 | 73,889            | 73,889            |
| Fixed income funds               | -                 | -                 | 28,861            | 28,861            |
| Private equity funds             | -                 | -                 | 36,414            | 36,414            |
| Real estate                      | -                 | 8,052             | 20,453            | 28,505            |
| Total investments                | <u>136,638</u>    | <u>37,260</u>     | <u>159,617</u>    | <u>333,515</u>    |
| Beneficial interest in trusts    | -                 | -                 | 16,074            | 16,074            |
| Total assets at fair value       | <u>\$ 189,631</u> | <u>\$ 37,260</u>  | <u>\$ 175,691</u> | <u>\$ 402,582</u> |
| <b>Liabilities</b>               |                   |                   |                   |                   |
| Interest rate agreements         | <u>\$ -</u>       | <u>\$ (4,246)</u> | <u>\$ (4,636)</u> | <u>\$ (8,882)</u> |

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

The following table summarizes the changes in the Level 3 financial instruments carried at fair value during the years ended June 30, 2011 and 2010 (in thousands):

|  | <b>Alternative Investments</b> |                                   |                                     |                    | <b>Total<br/>Alternative<br/>Investments</b> |
|--|--------------------------------|-----------------------------------|-------------------------------------|--------------------|--|
|  | <b>Equity<br/>Funds</b>        | <b>Fixed<br/>Income<br/>Funds</b> | <b>Private<br/>Equity<br/>Funds</b> | <b>Real Estate</b> |  |
| Fair value, June 30, 2009                  | \$ 55,212                      | \$ 17,558                         | \$ 38,757                           | \$ 11,670          | \$ 123,197                                   |
| Net realized and unrealized gains (losses) | 6,123                          | 4,707                             | 4,350                               | (1,924)            | 13,256                                       |
| Purchases                                  | 25,000                         | 7,000                             | 2,551                               | 11,107             | 45,658                                       |
| Sales and settlements                      | (12,446)                       | (404)                             | (9,244)                             | -                  | (22,094)                                     |
| Transfers                                  | -                              | -                                 | -                                   | (400)              | (400)  |
| Fair value, June 30, 2010                  | 73,889                         | 28,861                            | 36,414                              | 20,453             | 159,617                                      |
| Net realized and unrealized gains (losses) | 9,856                          | 8,177                             | 11,570                              | 125                | 29,728                                       |
| Purchases                                  | 14,234                         | -                                 | 2,166                               | 1,601              | 18,001                                       |
| Sales and settlements                      | (4,745)                        | (6,066)                           | (10,835)                            | (127)              | (21,773)                                     |
| Fair value, June 30, 2011                  | <u>\$ 93,234</u>               | <u>\$ 30,972</u>                  | <u>\$ 39,315</u>                    | <u>\$ 22,052</u>   | <u>\$ 185,573</u>                            |

  

|  | <b>Beneficial<br/>Interest in<br/>Trusts</b> | <b>Total<br/>Level 3<br/>Assets</b> | <b>Interest<br/>Rate<br/>Agreements</b> | <b>Total<br/>Level 3<br/>Liabilities</b> |
|--|--|-------------------------------------|---|--|
|  | Fair value, June 30, 2009                    | \$ 13,379                           | \$ 136,576                              | \$ (3,380)                               |
| Net realized and unrealized gains (losses) | 2,587  | 15,843                              | (1,256)                                 | (1,256)                                  |
| Purchases                                  | 126  | 45,784                              | -                                       | -  |
| Sales and settlements                      | (18)   | (22,112)                            | -                                       | -  |
| Transfers                                  | -  | (400)                               | -                                       | -  |
| Fair value, June 30, 2010                  | 16,074                                       | 175,691                             | (4,636)                                 | (4,636)                                  |
| Net realized and unrealized gains (losses) | 1,810  | 31,538                              | 687                                     | 687                                      |
| Purchases                                  | 389  | 18,390                              | -                                       | -  |
| Sales and settlements                      | (296)  | (22,069)                            | -                                       | -  |
| Fair value, June 30, 2011                  | <u>\$ 17,977</u>                             | <u>\$ 203,550</u>                   | <u>\$ (3,949)</u>                       | <u>\$ (3,949)</u>                        |

In the consolidated statement of activities for the years ended June 30, 2011 and 2010, net realized and unrealized gains and losses on Level 3 financial assets are included in nonoperating net realized and unrealized gains and losses on investments and net unrealized gains and losses on beneficial interest in trusts. Net realized and unrealized losses on Level 3 financial liabilities are included in nonoperating net realized and unrealized losses on interest rate agreements.

There were no transfers between Level 1 and Level 2 investments for the years ended June 30, 2011 and 2010. For the year ended June 30, 2010, real estate valued at \$400,000 was transferred to Level 2 from Level 3 as the University had received an offer to purchase.

**Cash and Cash Equivalents**

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

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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

**Contributions**

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Promises to give that are scheduled to be received after the fiscal year-end are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions that are expected to be collected after one year are recorded at the present value of estimated future cash flows. The discount rates used range from approximately .92% to 8%. Amortization of the discount is recorded as additional contribution revenue in the applicable net asset class.

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

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

**Deferred Financing Costs**

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

For the years ended June 30, 2011 and 2010, deferred financing costs, net totaled approximately \$2,428,000 and \$2,502,000 respectively. Amortization expense for the years ended June 30, 2011 and 2010 was approximately \$74,000 and \$71,000, respectively. The estimated amortization expense for deferred financing costs for the next five years is approximately \$74,000 annually.

**Investments**

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

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2011 and 2010

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

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

#### **Land, Buildings and Equipment**

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

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

Useful lives are as follows:

|                            |                |
|----------------------------|----------------|
| Land improvements          | 10 to 20 years |
| Buildings and improvements | 20 to 40 years |
| Equipment                  | 3 to 10 years  |

#### **Split-Interest Agreements**

The University is a recipient of funds under perpetual trust and irrevocable split-interest agreements, the income on which may be restricted by the donor. Amounts held by third-party trustees in perpetuity for the benefit of the University are reported at their fair value. Under the terms of these agreements, the University has the irrevocable right to its share of the income earned on the trust assets. Amounts received under split-interest agreements, including charitable gift annuities, charitable lead trusts, charitable remainder trusts, and pooled income arrangements, may be invested by the University or third-party trustees, and at the end of each agreement's term are distributed either to the University or other beneficiaries. Annual distributions to beneficiaries may be for a specified dollar amount or a percentage of the trust's fair value. Upon receipt, gifts requiring the University or trustee to pay donors a specified periodic amount are recorded at fair value with corresponding estimated liabilities for future amounts payable to other beneficiaries, where applicable. The liabilities associated with these gifts are adjusted during the term of these gift instruments. The University is aware of certain split-interest arrangements in which it has been named as beneficiary and has adopted a policy that until such amounts are estimable and probable, such amounts are not recognized in the financial statements. The present value of payments to beneficiaries under split-interest arrangements is calculated using discount rates in effect at the date of the gift; these rates range from approximately 2% to 11.6%.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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**Asset Retirement Obligations**

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

**Tax-Exempt Status**

The University is a tax-exempt organization as described in Section 501 (c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes pursuant to Section 501 (a) of the Code.

**Sponsored Research**

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

**Reclassification**

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

**3. Accounts Receivable**

Accounts receivable consist of the following at June 30, 2011 and 2010 (in thousands):

|                                       | <b>2011</b>     | <b>2010</b>     |
|---------------------------------------|-----------------|-----------------|
| Sponsored research                    | \$ 2,115        | \$ 2,470        |
| Student receivables                   | 2,140           | 2,286           |
| Other receivables                     | 1,348           | 486             |
|                                       | <u>5,603</u>    | <u>5,242</u>    |
| Less: Allowance for doubtful accounts | (676)           | (620)           |
|                                       | <u>\$ 4,927</u> | <u>\$ 4,622</u> |

**4. Contributions Receivable**

Unconditional promises are expected to be received in the following periods at June 30, 2011 and 2010 (in thousands):

|                                      | <b>2011</b>      | <b>2010</b>      |
|--------------------------------------|------------------|------------------|
| In one year or less                  | \$ 5,280         | \$ 9,092         |
| Between one and five years           | 7,080            | 9,802            |
| Greater than five years              | 309              | 542              |
|                                      | <u>12,669</u>    | <u>19,436</u>    |
| Less:                                |                  |                  |
| Discount to present value            | (504)            | (1,052)          |
| Allowance for doubtful contributions | (585)            | (814)            |
|                                      | <u>\$ 11,580</u> | <u>\$ 17,570</u> |

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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As of June 30, 2011 and 2010, the University has approximately \$17,867,000 and \$7,998,000, respectively, of cumulative conditional promises to give that are not recognized as assets in the accompanying consolidated statement of financial position.

**5. Student Loans Receivable**

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, 2011 and 2010, student loans represented 3.1% and 3.4% of total assets, respectively.

Student loans receivable consist of the following at June 30, 2011 and 2010 (in thousands):

|                                       | <b>2011</b>                                |                                   |                  |
|---------------------------------------|--|-----------------------------------|------------------|
|                                       | <b>Federal<br/>Government<br/>Programs</b> | <b>Institutional<br/>Programs</b> | <b>Total</b>     |
| Student loans receivable              | \$ 12,435                                  | \$ 11,314                         | \$ 23,749        |
| Less allowance for doubtful accounts: |  |                                   |                  |
| Beginning of year                     | (396)                                      | (344)                             | (740)            |
| Increases                             | (90)                                       | (246)                             | (336)            |
| Write-offs                            | -  | 326                               | 326              |
| End of year                           | (486)                                      | (264)                             | (750)            |
| Student loans receivable, net         | <u>\$ 11,949</u>                           | <u>\$ 11,050</u>                  | <u>\$ 22,999</u> |
|                                       | <b>2010</b>                                |                                   |                  |
|                                       | <b>Federal<br/>Government<br/>Programs</b> | <b>Institutional<br/>Programs</b> | <b>Total</b>     |
| Student loans receivable              | \$ 12,406                                  | \$ 10,885                         | \$ 23,291        |
| Less allowance for doubtful accounts: |  |                                   |                  |
| Beginning of year                     | (363)                                      | (317)                             | (680)            |
| Increases                             | (33)                                       | (27)                              | (60)             |
| End of year                           | (396)                                      | (344)                             | (740)            |
| Student loans receivable, net         | <u>\$ 12,010</u>                           | <u>\$ 10,541</u>                  | <u>\$ 22,551</u> |

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 of \$6,792,000 at June 30, 2011 and 2010 are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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The following amounts were past due under student loan programs at June 30, 2011 and 2010 (in thousands):

|               | <u>1-60 days</u> | <u>60-90 days</u> | <u>90+ days</u> | <u>Total past due</u> |
|---------------|------------------|-------------------|-----------------|-----------------------|
| June 30, 2011 | \$ 32            | \$ 28             | \$ 1,247        | \$ 1,307              |
| June 30, 2010 | 23               | 9                 | 1,454           | 1,486                 |

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. Investments**

Investments at June 30, 2011 are as follows (comparative totals are included for 2010) (in thousands):

|                           | <u>2011</u>                        |                                  |                   | <u>2010 Total</u> |
|---------------------------|------------------------------------|----------------------------------|-------------------|-------------------|
|                           | <u>Endowment and Similar Funds</u> | <u>Split-Interest Agreements</u> | <u>Total</u>      |                   |
| Cash and cash equivalents | \$ 3,903                           | \$ 224                           | \$ 4,127          | \$ 3,944          |
| Equity securities         | 133,594                            | 11,400                           | 144,994           | 111,584           |
| Fixed income securities   | 35,921                             | 6,739                            | 42,660            | 40,016            |
| Commodities               | 16,696                             | -                                | 16,696            | 10,302            |
| Alternative investments   |                                    |                                  |                   |                   |
| Equity funds              | 93,234                             | -                                | 93,234            | 73,889            |
| Fixed income funds        | 30,972                             | -                                | 30,972            | 28,861            |
| Private equity funds      | 39,315                             | -                                | 39,315            | 36,414            |
| Real estate               | 29,704                             | -                                | 29,704            | 28,505            |
| Total investments         | <u>\$ 383,339</u>                  | <u>\$ 18,363</u>                 | <u>\$ 401,702</u> | <u>\$ 333,515</u> |

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



**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

The following table summarizes key provisions for certain University's alternative investments as of June 30, 2011:

|   | Strategy  | NAV of Funds     | Number of Funds | Remaining Life | Amount of Unfunded Commitments | Timing to Draw Commitments | Redemption Terms  | Redemption Restrictions  | Redemption Restrictions in Place at Year End                  |
|---|---|------------------|-----------------|----------------|--------------------------------|----------------------------|---|--|---|
| <b>Absolute Return – Market Neutral</b> | Global equity and fixed income funds in market neutral strategies | \$89,359         | 10              | NA             | \$ --                          | NA                         | Ranges between quarterly redemption with 65 to 90 days notice to annual redemption with 45 days notice. | 2 funds have lock up provisions of up to 3 years and limits on redemption of 1/3 annually. 2 funds have a lock up provision of 2 years. 2 funds have lock up provisions of 1 year. Illiquid side pockets exist for 2 of the funds. | 1 fund has a 2 year lockup provision expiring in 2012.        |
| <b>Private Equity</b>                   | Venture capital and buyout, in the U.S. and international         | 31,738           | 22              | 1 to 9 ½ years | 6,150                          | 1 to 9 years               | Private equity structure with no ability to be redeemed.  | NR   | NR  |
| <b>Directional Hedge</b>                | Global long/short equity funds                                    | 42,165           | 3               | NA             | --                             | NA                         | Quarterly redemption with 60 days notice.   | 2 funds have lock up provisions of up to 1 year. Illiquid side pockets exist for 1 of the funds.   | 1 fund has a 1 year lock up provision expiring June 30, 2012. |
| <b>Real Estate</b>                      | U.S. real estate  | 2,871            | 1               | 6 years        | 2,474                          | 1 to 6 years               | Private equity structure with no ability to redeem.   | NR   | NR  |
| <b>Total</b>                            |   | <b>\$166,133</b> | <b>36</b>       |                | <b>\$ 8,624</b>                |                            |   |  |   |

NA = not applicable

NR = The University cannot redeem these investments.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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**Endowment Income and Spending**

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

On July 2, 2009, Massachusetts enacted its Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) statute. UPMIFA provides guidance for investment management; enumerates guidelines in prudent investing; and, eliminates the concept of “historic dollar value” for donor-restricted endowments. The University adopted UPMIFA during the year ended June 30, 2010 and has not limited appropriation of underwater funds to current yield. Appropriation on underwater funds in years prior to adoption had been limited to current yield until such time as the deficiency had been restored and the fair value of the fund exceeded the level required to be retained permanently.

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

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

The University’s investment return for the year ended June 30, 2011, with comparative totals for 2010, is summarized as follows (in thousands):

|   | 2011         |                           |                           | Total     | 2010<br>Total |
|---|--------------|---------------------------|---------------------------|-----------|---------------|
|   | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted |           |               |
| Investment income on endow ment<br>and similar funds                | \$ 1,930     | \$ -                      | \$ 87                     | \$ 2,017  | \$ 2,357      |
| Net realized and unrealized gains<br>(losses) on investments        | 34,620       | 31,714                    | -                         | 66,334    | 28,217        |
| Return on endow ment and similar funds                              | 36,550       | 31,714                    | 87                        | 68,351    | 30,574        |
| Other investment income   | 2,698        | 517                       | 48                        | 3,263     | 3,300         |
| Total return on investments   | 39,248       | 32,231                    | 135                       | 71,614    | 33,874        |
| Investment return designated<br>for current unrestricted operations | (13,252)     | (7,902)                   | (135)                     | (21,289)  | (21,892)      |
| Investment return net of return utilized                            | \$ 25,996    | \$ 24,329                 | \$ -                      | \$ 50,325 | \$ 11,982     |

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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Investment income is net of investment management fees of approximately \$366,000 and \$321,000 for the years ended June 30, 2011 and 2010, respectively.

The University observes a spending rule with respect to total return (interest, dividends and appreciation) on investments of the endowment and similar funds. Under the spending rule, the University appropriated 5.4% of its endowment and similar funds' average unit fair value for the previous three years, one year removed, for the years ended June 30, 2011 and 2010, respectively.

The spending rule distributions for fiscal years 2011 and 2010, respectively, were \$0.328 and \$0.348 per time weighted unit, comprised of, respectively, \$0.066 and \$0.075 of income and \$0.262 and \$0.273 of distributions from current and accumulated net gains. At June 30, 2011 there were a total of 62,370,578 units in the pooled endowment and similar funds, each having a fair value of \$5.827. Of the total units, 30,728,288 were owned by endowment funds and 31,642,290 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, 2011 and in each of the prior four years is as follows:

|      | <b>Income Per Time-<br/>Weighted Unit</b> | <b>Fair Value<br/>Per Unit</b> |
|------|---|--------------------------------|
| 2011 | \$ 0.066                                  | \$ 5.827                       |
| 2010 | 0.075                                     | 5.064                          |
| 2009 | 0.091                                     | 4.863                          |
| 2008 | 0.115                                     | 6.479                          |
| 2007 | 0.035                                     | 6.876                          |

To the extent that accumulated realized and unrealized losses are in excess of accumulated gains for permanently restricted endowment funds, they are reported as decreases in unrestricted net assets. As a result of market declines, the fair value of certain permanently restricted endowment funds is less than the historic dollar value of such funds ("underwater funds") by approximately \$1,474,000 and \$4,717,000 at June 30, 2011 and 2010, respectively, and have been offset by transfers from unrestricted net assets to temporarily restricted net assets. The University is under no legal obligation to fund the deficiency.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

**Endowment and Similar Funds**

The endowment and similar funds' net asset composition as of June 30, 2011 and 2010 and the changes for the years then ended are as follows (in thousands):

|  | <b>2011</b>         |                               |                               |                   |
|--|---------------------|-------------------------------|-------------------------------|-------------------|
|  | <b>Unrestricted</b> | <b>Temporarily Restricted</b> | <b>Permanently Restricted</b> | <b>Total</b>      |
| Donor restricted                         | \$ -                | \$ 80,829                     | \$ 115,300                    | \$ 196,129        |
| Quasi-endowment                          | 164,133             | -                             | -                             | 164,133           |
| <b>Total</b>                             | <b>\$ 164,133</b>   | <b>\$ 80,829</b>              | <b>\$ 115,300</b>             | <b>\$ 360,262</b> |
| Balance, July 1, 2010                    | \$ 134,268          | \$ 60,913                     | \$ 103,637                    | \$ 298,818        |
| Investment return:                       |                     |                               |                               |                   |
| Investment income                        | 4,071               | 15                            | -                             | 4,086             |
| Net appreciation realized and unrealized | 33,033              | 30,642                        | -                             | 63,675            |
| <b>Total investment return</b>           | <b>37,104</b>       | <b>30,657</b>                 | <b>-</b>                      | <b>67,761</b>     |
| Contributions                            | 2,201               | -                             | 11,663                        | 13,864            |
| Appropriated for expenditure             | (12,694)            | (7,498)                       | -                             | (20,192)          |
| Provision for underwater funds           | 3,243               | (3,243)                       | -                             | -                 |
| Other changes                            | 11                  | -                             | -                             | 11                |
| <b>Balance, June 30, 2011</b>            | <b>\$ 164,133</b>   | <b>\$ 80,829</b>              | <b>\$ 115,300</b>             | <b>\$ 360,262</b> |

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

**Split-Interest Agreements**

Investments include the following split-interest agreements at June 30, 2011 and 2010 (in thousands):

|                             | <b>2011</b>      | <b>2010</b>      |
|-----------------------------|------------------|------------------|
| Charitable gift annuities   | \$ 8,442         | \$ 6,657         |
| Charitable remainder trusts | 8,064            | 7,382            |
| Pooled income funds         | 1,857            | 2,430            |
|                             | <b>\$ 18,363</b> | <b>\$ 16,469</b> |

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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**7. Land, Buildings and Equipment**

Land, buildings and equipment consist of the following at June 30, 2011 and 2010 (in thousands):

|                                | <b>2011</b>       | <b>2010</b>       |
|--------------------------------|-------------------|-------------------|
| Land and land improvements     | \$ 15,939         | \$ 15,939         |
| Buildings                      | 270,307           | 261,108           |
| Equipment                      | 30,203            | 36,392            |
|                                | <u>316,449</u>    | <u>313,439</u>    |
| Less: Accumulated depreciation | (139,678)         | (135,569)         |
|                                | <u>176,771</u>    | <u>177,870</u>    |
| Construction-in-progress       | 35,481            | 13,435            |
|                                | <u>\$ 212,252</u> | <u>\$ 191,305</u> |

Depreciation expense charged to operations was approximately \$14,778,000 and \$13,759,000 for the years ended June 30, 2011 and 2010, respectively. Net interest cost capitalized was approximately \$3,063,000 and \$1,163,000 for the years ended June 30, 2011 and 2010, respectively.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

**8. Bonds and Notes Payable**

Bonds and notes payable consist of the following (in thousands) at June 30, 2011 and 2010:

| <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, 2011</b> | <b>Balance, June 30, 2010</b> |
|--|----------------------|------------------------|-----------------------|-----------------------------------|-------------------------------|-------------------------------|
| <b>Bonds payable</b>   |                      |                        |                       |                                   |                               |                               |
| Housing and Urban Development<br>1969 Series C (1)                   | 4/1/2019             | 3.0                    | \$ 1,160              | \$ 35                             | \$ 317                        | \$ 352                        |
| Massachusetts Development<br>Finance Agency<br>2007 Series (3)       | 9/1/2047             | 4.0-5.0                | 81,915                | 1,875                             | 82,008                        | 83,718                        |
| Massachusetts Development<br>Finance Agency<br>2008 Series A & B (2) | 9/1/2035             | Variable               | 54,815                | 310                               | 53,785                        | 54,145                        |
| Massachusetts Development<br>Finance Agency<br>2010 Series (4)       | 9/1/2045             | 4.5-5.0                | 56,000                | -                                 | 56,072                        | 56,073                        |
| <b>Uncollateralized notes</b>  |                      |                        |                       |                                   |                               |                               |
| TD Bank Note A   | 6/8/2015             | 4.69                   | 3,656                 | 120                               | 3,545                         | 3,656                         |
| TD Bank Note B   | 6/8/2017             | 5.35                   | 4,201                 | 129                               | 4,083                         | 4,201                         |
| Worcester Business<br>Development Corp.                              | 9/1/2014             | 5.0                    | 1,766                 | 351                               | 1,169                         | 1,502                         |
| <b>Capital lease obligations</b>                                     | Various              | Various                |                       | 480                               | 1,703                         | 803                           |
| Total bonds and notes payable  |                      |                        |                       | <u>\$ 3,300</u>                   | <u>\$ 202,682</u>             | <u>\$ 204,450</u>             |

- (1) Collateralized by land, building and equipment known as Stoddard Residence Center and pledged net revenues from the operations of the dormitory.
- (2) The bonds, issued at par with no discount or premium, represent a general obligation of the University.
- (3) The bonds represent a general obligation of the University. The balances at June 30, 2011 and 2010 include a premium of approximately \$1,978,000 and \$2,033,000, respectively.
- (4) The bonds represent a general obligation of the University. The balances at June 30, 2011 and 2010 include a premium of approximately \$72,000 and \$73,000 respectively.

In compliance with the University's various bond indentures, funds held under bond agreements at June 30, 2011 and 2010 include investments of approximately \$34,600,000 and \$52,993,000, respectively, held for construction and debt service reserves.

The fair value of the University's debt has been calculated by determining the net present value of future cash outlays using an interest rate based on the length of time to maturity. The rates were based upon market conditions as of June 30, 2011 and 2010 and the University's credit risk as of June 30, 2011. The estimated fair value at June 30, 2011 and 2010 is approximately \$207,106,000 and \$213,822,000, respectively.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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

|                     |                   |
|---------------------|-------------------|
| 2012                | \$ 3,300          |
| 2013                | 3,304             |
| 2014                | 4,523             |
| 2015                | 7,419             |
| 2016                | 4,129             |
| Thereafter          | <u>177,957</u>    |
| Total cash payments | \$ 200,632        |
| Premium             | <u>2,050</u>      |
|                     | <u>\$ 202,682</u> |

In June 2010, the University borrowed \$7,857,000 in the form of two uncollateralized notes payable to TD Bank. The proceeds were used to refinance the debt assumed for the acquisition of the remaining interest in Gateway and New Garden Park (see Note 13). The borrowings consist of two notes payable with balloon payments due in 2015 and 2017, respectively. Monthly installments of principal and interest totaling \$52,000 are paid based on a 20 year amortization.

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

In April 2008, the University borrowed \$54,815,000 in the form of MDFA Variable Rate Demand Revenue Bonds Series 2008A (tax-exempt) and 2008B (federally taxable), (the "2008 Bonds"). The proceeds from the issues were used to refund the University's borrowings under the MDFA Revenue Bonds, Series 2005A (tax-exempt) and 2005B (federally taxable) Select Auction Variable Rate Securities (the "2005 Bonds"), and the MDFA Revenue Bonds, Series 2003A Select Auction Variable Rate Securities (the "2003 Bonds"), and to pay the costs of issuance. The 2008 Bonds are payable in semiannual installments with principal payments ranging from \$360,000 to \$2,915,000, with a final maturity of September 1, 2035. Interest on the 2008 Bonds is at a variable rate which is reset on a weekly basis. As more fully described in Note 9, the interest rate swap agreements entered into as an integral part of the 2005 and 2003 Bonds remain in effect to economically hedge the interest rate risks associated with the 2008 Bonds.

Payment of the principal of, the purchase price of, and interest on each series of the 2008 Bonds, when due, is collateralized by irrevocable direct pay letters of credit by TD Bank that expire in 2013. The letters of credit include financial covenants that require that the University maintain minimum expendable net assets to debt of at least 0.65 and a minimum long term credit rating of A3/A-.

The 2008 Bonds can bear interest at a daily, weekly or monthly variable rate mode or at a fixed rate mode. Bonds in the variable rate mode are subject to tender at the election of the bondholders. In the event that the University receives notice of any optional tender of its bonds, or if these bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will be obligated to purchase the bonds tendered by drawing on the letters of credit. Such funds drawn on the letters of credit must be repaid in full within 180 days or converted to a 5 year term loan with quarterly payments commencing in

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

the 15th month following the conversion. If this were to occur, principal amounts on the 2008 Bonds due over the next five years and thereafter, in thousands, would be \$0, \$5,379, \$10,757, \$10,757, \$10,757 and \$16,136.

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

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

The University also has a \$25,000,000 bank revolving line of credit. The line of credit bears interest at LIBOR plus 0.95% per annum on outstanding amounts. There were no amounts outstanding at June 30, 2011 and 2010.

**9. Interest Rate Agreements**

The University has entered into several interest rate swap agreements used to economically hedge the interest rate risk associated with certain of its variable rate debt. The following summarizes the terms for each of these agreements as of June 30, 2011 (in thousands):

|                             | <b>Series 2008 A&amp;B</b> |   |                          | <b>Total, net</b> |
|-----------------------------|----------------------------|---|--------------------------|-------------------|
|                             | <b>Deutsche Bank</b>       | <b>Barclays Bank PLC</b>                          | <b>Barclays Bank PLC</b> |                   |
| Trade/effective date        | Nov. 3, 2008               | Nov. 3, 2008                                      | Nov. 3, 2008             |                   |
| Initial notional amount     | \$14,100                   | \$34,200  | \$5,775                  |                   |
| Termination date            | Oct. 1, 2033               | Sept. 1, 2035                                     | Sept. 1, 2016            |                   |
| Rate paid by University     | 4.650%                     | 3.714%  | 4.631%                   |                   |
| Rate paid by Counterparty   | 71% of one-month LIBOR     | 67% of one-month LIBOR when LIBOR is $\geq$ 4.00% | one-month LIBOR          |                   |
|                             |                            | SIFMA Municipal Swap Index when LIBOR is < 4.00%  |                          |                   |
| <u>Fair Value Liability</u> |                            |   |                          |                   |
| June 30, 2011               | (\$3,096)                  | (\$3,949)   | (\$548)                  | (7,593)           |
| June 30, 2010               | (\$3,606)                  | (\$4,636)   | (\$640)                  | (8,882)           |

The net unrealized gain that was recognized for the interest rate swap agreements for the year ended June 30, 2011, was approximately \$1,289,000 and has been recorded in net realized and unrealized losses on interest rate agreements on the accompanying consolidated statement of activities. At June 30, 2010, the fair value liability for interest rate swap agreements totaled \$8,882,000 and the net unrealized loss recognized in the accompanying consolidated statement of activities for the year ended was approximately \$2,161,000.

The counterparties to the Series 2008A and B interest rate swap agreements are Barclays Bank PLC ("Barclays") and Deutsche Bank AG ("Deutsche"). These counterparties replaced the counterparty to the



**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

---

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

The interest rate swap agreements under Barclays and Deutsche contain provisions requiring collateral postings should the fair value liability of the University exceed certain amounts based on the University's long term credit ratings. The collateral posting provision for the agreement with Deutsche is triggered should the fair value liability exceed \$40 million and the University's long term credit rating remains at A1/A+. The collateral posting provision for the two agreements with Barclays is triggered should the combined fair value liability exceed \$40 million and the University's long term credit rating declines to A2/A. At its current ratings level of A1/A+, no amount of fair value liability will trigger a posting requirement. The provisions with both counterparties provide that the liability threshold decreases if the University's long term credit ratings decline. At June 30, 2011, the University is not required to post collateral to its counterparties.

**10. 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 and College Retirement Equities Fund ("TIAA-CREF"), Fidelity Investments, or a combination of both. Contributions were approximately \$5,836,000 and \$5,481,000 for the years ended June 30, 2011 and 2010, respectively. Contributions are based upon a percentage of the employee's compensation.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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**11. Net Assets**

Net assets consist of the following at June 30, 2011 and 2010 (in thousands):

|  | 2011              |                        |                        | Total             |
|--|-------------------|------------------------|------------------------|-------------------|
|  | Unrestricted      | Temporarily Restricted | Permanently Restricted |                   |
| Endowment funds                                  |                   |                        |                        |                   |
| Long-term investment (quasi - endowment)         | \$ 164,133        | \$ -                   | \$ -                   | \$ 164,133        |
| Original principal                               | -                 | -                      | 115,300                | 115,300           |
| Unspent income and appreciation                  |                   |                        |                        |                   |
| Scholarship support                              | -                 | 43,997                 | -                      | 43,997            |
| Faculty support                                  | -                 | 11,762                 | -                      | 11,762            |
| Program support                                  | -                 | 25,070                 | -                      | 25,070            |
| Total endowment funds                            | 164,133           | 80,829                 | 115,300                | 360,262           |
| Split-interest agreements and perpetual trusts   | -                 | 6,932                  | 18,474                 | 25,406            |
| Student loan funds                               | 11,515            | -                      | 3,307                  | 14,822            |
| Gifts and other unexpended revenues              |                   |                        |                        |                   |
| Acquisition of building and equipment            | -                 | 5,886                  | -                      | 5,886             |
| Instruction, research, and institutional support | -                 | 7,165                  | -                      | 7,165             |
| Undesignated                                     | 63,437            | -                      | -                      | 63,437            |
|  | <u>\$ 239,085</u> | <u>\$ 100,812</u>      | <u>\$ 137,081</u>      | <u>\$ 476,978</u> |

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

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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**12. Expenses by Functional Category**

Following are expenses categorized by function (in thousands):

|                                     | <b>2011</b>       | <b>2010</b>       |
|-------------------------------------|-------------------|-------------------|
| Instruction and department research | \$ 69,207         | \$ 64,012         |
| Sponsored research                  | 18,972            | 17,167            |
| External relations                  | 7,820             | 7,006             |
| Institution and academic support    | 35,580            | 34,069            |
| Student services                    | 12,470            | 12,249            |
| Auxiliary enterprises               | 18,393            | 17,232            |
|                                     | <u>\$ 162,442</u> | <u>\$ 151,735</u> |

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

External relations expenditures include approximately \$4,212,000 and \$3,906,000 of fundraising expenses for the years ended June 30, 2011 and 2010, respectively.

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

The University and Worcester Business Development Corporation ("WBDC") jointly formed Gateway Park, LLC ("Gateway") to purchase and develop land located in the Gateway Park area of Worcester and incorporated New Garden Park, Inc. ("New Garden Park"), a Massachusetts not-for-profit corporation that owned and managed a parking garage located in the Gateway Park area of Worcester.

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

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

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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

**14. Related Parties**

**Prescott Holdings, LLC (“Prescott Holdings”)**

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

Prescott Holdings has \$7,618,000 in outstanding mortgage and construction notes payable with TD Banknorth, N.A. for which the University entered into limited guarantees. As of June 30, 2011, the amount guaranteed by the University is approximately \$952,000.

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

The Alumni Association, a separate 501(c)(3) organization, invests the majority of its funds in the University’s endowment. At June 30, 2011 and 2010, funds held for others in the consolidated statements of financial position includes Alumni Association assets of \$2,387,000 and \$2,025,000, respectively.

**15. Commitments and Contingencies**

**Construction Contracts**

For the year ended June 30, 2011, the University has contracted for the construction of a sports and recreation facility. The total project cost, including furnishings and fixtures, is estimated to approximate \$53,200,000. The majority of the funds to satisfy this commitment are included in funds held under bond agreements at June 30, 2011.

**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, 2011, the University had unfunded commitments of approximately \$8,624,000 that can be called through 2020. These commitments will be funded from the University’s existing cash and investments.

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2011 and 2010

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#### Operating Leases

The University is obligated under noncancelable operating leases for office space and storage facilities. In December 2010, the University entered into lease agreements for office space in a building located in Gateway Park being constructed by an unrelated party. The lease terms are 10 – 15 years. Occupancy is expected in the summer of 2012. The future minimum rental commitments for the next five years under these agreements as of June 30, 2011, are approximately as follows (in thousands):

|      |    |       |
|------|----|-------|
| 2012 | \$ | 405   |
| 2013 |    | 1,273 |
| 2014 |    | 1,130 |
| 2015 |    | 1,101 |
| 2016 |    | 1,101 |

Rental expense was approximately \$374,000 and \$544,000 for the years ended June 30, 2011 and 2010, respectively.

#### Guarantees

In addition to the amounts guaranteed by the University as disclosed in Note 14, the University has guaranteed commercial loans with an original principal amount of \$2,173,000 to five fraternities. These loans are collateralized by real property owned by the fraternities.

#### Interest Rate Agreements

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

#### Uncertain Tax Positions

The University is generally exempt from federal and state income taxes. Management annually reviews for uncertain tax positions along with any related interest and penalties and believes that the University has no uncertain tax positions that would have a material adverse effect, individually or in the aggregate, upon the University's consolidated statements of financial position, or the related consolidated statements of activities, or cash flows.

#### Sponsored Research

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

#### Other Commitments and Contingencies

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

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

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

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**16. Current Developments and Subsequent Events**

**Fair Value Disclosures**

On May 12, 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04, “Fair Value Measurements and Disclosures (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU converges the guidance in U.S. GAAP and IFRS on fair value measurements and disclosures and includes several new fair value disclosure requirements. Upon initial review by University’s management, the most significant change is the requirement to disclose information about valuation techniques and unobservable inputs used in Level 3 fair value measurements and a narrative description of the Level 3 measurements’ sensitivity to changes in unobservable inputs. ASU 2011-04 is effective for reporting periods beginning after December 15, 2011, (fiscal year ended 2013).

**Subsequent Events**

Management has evaluated subsequent events for the period after June 30, 2011 through October 31, 2011, the date the financial statements were posted to the University’s website and determined that there have been no subsequent events that would require recognition in the financial statements or disclosure in the notes of the financial statements.