

# **Worcester Polytechnic Institute**

**Consolidated Financial Statements  
June 30, 2012 and 2011**

# Worcester Polytechnic Institute

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June 30, 2012 and 2011

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## Report of Independent Auditors

To the Board of Trustees of  
Worcester Polytechnic Institute

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of Worcester Polytechnic Institute and its subsidiaries (the "University") at June 30, 2012 and 2011, 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*

September 21, 2012

**Worcester Polytechnic Institute**  
**Consolidated Statements of Financial Position**  
**June 30, 2012 and 2011 (in thousands)**

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	2012	2011
<b>Assets</b>		
Cash and cash equivalents	\$ 37,915	\$ 28,947
Accounts receivable, net	7,615	4,927
Contributions receivable, net	11,604	11,580
Funds held under bond agreements	3,788	34,600
Prepaid expenses and other assets	5,388	5,975
Student loans receivable, net	23,277	22,999
Beneficial interest in trusts	21,423	17,977
Investments	385,597	401,702
Land, buildings and equipment, net	249,317	212,252
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Total assets	\$ 745,924	\$ 740,959
<b>Liabilities</b>		
Accounts payable and accrued liabilities	27,075	20,370
Deposits and deferred revenue	9,615	7,706
Split-interest agreements	10,641	10,237
Funds held for others	3,328	3,494
Asset retirement obligations	3,571	5,107
Refundable government loan funds	6,792	6,792
Bonds and notes payable	199,803	202,682
Interest rate agreements	13,561	7,593
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Total liabilities	274,386	263,981
<b>Net assets</b>		
Unrestricted	234,250	239,085
Temporarily restricted	92,500	100,812
Permanently restricted	144,788	137,081
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Total net assets	471,538	476,978
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Total liabilities and net assets	\$ 745,924	\$ 740,959

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

**Worcester Polytechnic Institute**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2012 (in thousands)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues</b>				
Tuition and fees	\$ 176,528	\$ -	\$ -	\$ 176,528
Less: Unrestricted student aid	56,389	-	-	56,389
Endow ed scholarships	5,097	-	-	5,097
Externally funded student aid	4,819	-	-	4,819
Total student aid	66,305	-	-	66,305
Net tuition and fees	110,223	-	-	110,223
Other educational activities	2,538	-	-	2,538
Contributions	3,185	617	-	3,802
Contract and exchange transactions	22,247	-	-	22,247
Investment income on endow ment and similar funds	1,227	17	78	1,322
Net realized gains on endow ment used for operations	8,122	7,341	-	15,463
Other investment income	2,437	541	30	3,008
Sales and services of auxiliary enterprises	21,399	-	-	21,399
Other	2,176	-	-	2,176
Total revenues	173,554	8,516	108	182,178
Net assets released from restriction	11,897	(11,897)	-	-
Total revenues and other support	185,451	(3,381)	108	182,178
<b>Operating expenses</b>				
Instruction and department research	67,526	-	-	67,526
Sponsored research and other sponsored programs	14,710	-	-	14,710
External relations	8,923	-	-	8,923
Institution and academic support	35,107	-	-	35,107
Student services	10,026	-	-	10,026
Operation and maintenance of plant	24,969	-	-	24,969
Auxiliary enterprises	9,433	-	-	9,433
Total operating expenses	170,694	-	-	170,694
Change in net assets from operating activities	14,757	(3,381)	108	11,484
<b>Nonoperating</b>				
Net realized and unrealized losses on investments	(1,083)	(3,266)	-	(4,349)
Net realized gains on endow ment used for operations	(8,122)	(7,341)	-	(15,463)
Provision for underwater funds	(1,815)	1,815	-	-
Net unrealized gains (losses) on beneficial interest in trusts	-	(40)	1,252	1,212
Change in value of split-interest agreements	(527)	(31)	116	(442)
Contributions	-	3,932	6,231	10,163
Net realized and unrealized losses on interest rate agreements	(8,045)	-	-	(8,045)
Change in net assets from nonoperating activities	(19,592)	(4,931)	7,599	(16,924)
Total change in net assets	(4,835)	(8,312)	7,707	(5,440)
Net assets, beginning of year	239,085	100,812	137,081	476,978
Net assets, end of year	\$ 234,250	\$ 92,500	\$ 144,788	\$ 471,538

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 Restricted	Permanently Restricted	Total
<b>Operating revenues</b>				
Tuition and fees	\$ 160,108	\$ -	\$ -	\$ 160,108
Less: Unrestricted student aid	50,033	-	-	50,033
Endowed scholarships	5,619	-	-	5,619
Externally funded student aid	3,425	-	-	3,425
Total student aid	59,077	-	-	59,077
Net tuition and fees	101,031	-	-	101,031
Other educational activities	2,859	-	-	2,859
Contributions	2,685	1,675	-	4,360
Contract and exchange transactions	23,262	-	-	23,262
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	19,843	-	-	19,843
Other	2,128	-	-	2,128
Total revenues	165,060	9,577	135	174,772
Net assets released from restriction	11,693	(11,693)	-	-
Total revenues and other support	176,753	(2,116)	135	174,772
<b>Operating expenses</b>				
Instruction and department research	62,253	-	-	62,253
Sponsored research and other sponsored programs	16,727	-	-	16,727
External relations	7,517	-	-	7,517
Institution and academic support	30,919	-	-	30,919
Student services	9,098	-	-	9,098
Operation and maintenance of plant	27,355	-	-	27,355
Auxiliary enterprises	8,905	-	-	8,905
Total operating expenses	162,774	-	-	162,774
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 Statements of Cash Flows**  
**Years Ended June 30, 2012 and 2011 (in thousands)**

	2012	2011
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (5,440)	\$ 76,764
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	14,764	14,808
Provision for uncollectible receivables	299	1,011
Net realized and unrealized losses (gains) on investments	3,137	(68,144)
Net unrealized loss on interest rate agreements	8,045	759
Contributions other than cash	(4,132)	(9,885)
Contributions restricted for long-term investment	(7,151)	(4,480)
Changes in assets and liabilities:		
Accounts receivable	(980)	(647)
Contributions receivable	1,981	1,041
Prepaid expenses and other assets	579	(988)
Accounts payable and accrued liabilities	(745)	(5,135)
Deposits and deferred revenue	1,979	(113)
Asset retirement obligations	(1,597)	(60)
Split-interest agreements	345	249
Funds held for others	(15)	341
Total adjustments	16,509	(71,243)
Net cash provided by operating activities	11,069	5,521
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	68,073	144,008
Purchase of investments	(54,577)	(135,410)
Purchase of land, buildings, and equipment	(45,782)	(26,801)
Use of funds held under bond agreements	30,812	18,393
Disbursement of loans to students	(3,830)	(3,812)
Repayment of loans from students	3,360	3,028
Net cash used in investing activities	(1,944)	(594)
<b>Cash flows from financing activities</b>		
Contributions restricted for long-term investment	5,230	9,096
Realized loss on interest rate agreements	(2,077)	(2,048)
Proceeds from long-term debt	7,545	-
Repayment of long-term debt	(10,855)	(3,076)
Net cash (used by) provided by financing activities	(157)	3,972
Net increase in cash and cash equivalents	8,968	8,899
Cash and cash equivalent at beginning of year	28,947	20,048
Cash and cash equivalents at end of year	\$ 37,915	\$ 28,947
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 7,235	\$ 7,660
Contributed securities	\$ 4,132	\$ 9,422
Gifts-in-kind	\$ 353	\$ 335
Purchases of buildings and equipment included in accounts payable	\$ 10,864	\$ 9,885
Leased equipment	\$ 488	\$ 1,365

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

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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#### 1. Organization

Worcester Polytechnic Institute (the "University"), founded in 1865, is the nation's third oldest private engineering university. Approximately 4,900 undergraduate and graduate students attend the University annually. The University is located in Worcester, Massachusetts and serves a diverse student body from almost every state and over 80 foreign countries.

#### 2. Summary of Significant Accounting Policies

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

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

##### *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.

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

Washburn is a not-for-profit corporation that owns and manages a parking garage located in the Gateway Park area of Worcester.

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

The University owns a vacant parcel of land for future development purposes located at 75 Grove Street in Worcester.

Intercompany accounts and transactions have been eliminated.



# **Worcester Polytechnic Institute**

## **Notes to Consolidated Financial Statements**

### **June 30, 2012 and 2011**

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#### **Classifications**

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

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

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

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

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

#### **Financial Instruments**

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

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

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

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially similar assets or liabilities. Level 2 also includes certain investments reported using the net asset value per share as determined by investment managers with notice periods for redemption of 90 days or less.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

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. Level 3 also includes certain investments reported using the net asset value per share as determined by investment managers with notice periods for redemption of greater than 90 days.

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, 2012 and 2011 as follows (in thousands):

<b>Assets</b>	<b>2012</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Funds held under bond agreements	\$ 3,788	\$ -	\$ -	\$ 3,788
Investments				
Cash and cash equivalents	408	-	-	408
Equity securities	107,003	6,065	-	113,068
Fixed income securities	38,082	286	-	38,368
Commodities	10,949	-	-	10,949
Alternative investments				
Equity funds	-	59,147	46,741	105,888
Fixed income funds	-	7,668	42,022	49,690
Private equity funds	-	-	34,811	34,811
Real estate	-	7,652	24,763	32,415
Total investments	156,442	80,818	148,337	385,597
Beneficial interest in trusts	-	-	21,423	21,423
Total assets at fair value	\$ 160,230	\$ 80,818	\$ 169,760	\$ 410,808
<b>Liabilities</b>				
Interest rate agreements	\$ -	\$ (5,225)	\$ (8,336)	\$ (13,561)

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

<u>Assets</u>	2011			
	Level 1	Level 2	Level 3	Total
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	191,916	24,213	185,573	401,702
Beneficial interest in trusts	-	-	17,977	17,977
Total assets at fair value	\$ 226,516	\$ 24,213	\$ 203,550	\$ 454,279
<u>Liabilities</u>				
Interest rate agreements	\$ -	\$ (3,644)	\$ (3,949)	\$ (7,593)

The following table summarizes the changes in the Level 3 financial instruments carried at fair value during the years ended June 30, 2012 and 2011 (in thousands):

	Alternative Investments				Total Alternative Investments
	Equity Funds	Fixed Income Funds	Private Equity Funds	Real Estate	
Fair value, June 30, 2010	\$ 73,889	\$ 28,861	\$ 36,414	\$ 20,453	\$ 159,617
Net realized and unrealized gains	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	93,234	30,972	39,315	22,052	185,573
Net realized and unrealized gains	280	4,768	2,131	741	7,920
Purchases	13,000	15,000	1,325	2,409	31,734
Sales and settlements	(626)	(1,050)	(7,960)	(439)	(10,075)
Transfers	(59,147)	(7,668)	-	-	(66,815)
Fair value, June 30, 2012	\$ 46,741	\$ 42,022	\$ 34,811	\$ 24,763	\$ 148,337

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

	Beneficial Interest in Trusts	Total Level 3 Assets	Interest Rate Agreements	Total Level 3 Liabilities
Fair value, June 30, 2010	\$ 16,074	\$ 175,691	\$ (4,636)	\$ (4,636)
Net realized and unrealized gains	1,810	31,538	687	687
Purchases	389	18,390	-	-
Sales and settlements	(296)	(22,069)	-	-
Fair value, June 30, 2011	17,977	203,550	(3,949)	(3,949)
Net realized and unrealized gains (losses)	1,212	9,132	(4,387)	(4,387)
Purchases	2,762	34,496	-	-
Sales and settlements	(528)	(10,603)	-	-
Transfers	-	(66,815)	-	-
Fair value, June 30, 2012	<u>\$ 21,423</u>	<u>\$ 169,760</u>	<u>\$ (8,336)</u>	<u>\$ (8,336)</u>

In the consolidated statement of activities for the years ended June 30, 2012 and 2011, 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, 2012 and 2011. For the year ended June 30, 2012, certain investments valued at net asset value per share as determined by investment managers were transferred to Level 2 from Level 3 as notice periods for redemption were 90 days or less.

**Cash and Cash Equivalents**

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

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

**Contributions**

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Promises to give that are scheduled to be received after the fiscal year-end are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions that are expected to be collected after one year are recorded at the present value of estimated future cash flows. The discount rates used range from approximately 0.4% to 8%. Amortization of the discount is recorded as additional contribution revenue in the applicable net asset class.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

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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, 2012 and 2011, deferred financing costs, net totaled approximately \$2,354,000 and \$2,428,000 respectively. Amortization expense for the years ended June 30, 2012 and 2011 was approximately \$74,000. 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.

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.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

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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 1.4% to 11.6%.

**Asset Retirement Obligations**

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

During the year ended June 30, 2012, the estimate to decommission a nuclear reactor was revised and the associated ARO liability was reduced by approximately \$1,346,000. The adjustment reduced operating expenses and has been recorded in operation and maintenance of plant in the consolidated statement of activities.

**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.

**Worcester Polytechnic Institute**  
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**3. Accounts Receivable**

Accounts receivable consist of the following at June 30, 2012 and 2011 (in thousands):

	<b>2012</b>	<b>2011</b>
Sponsored research	\$ 1,735	\$ 2,115
Student receivables	2,405	2,140
Other receivables	4,237	1,348
	<u>8,377</u>	<u>5,603</u>
Less: Allowance for doubtful accounts	(762)	(676)
	<u>\$ 7,615</u>	<u>\$ 4,927</u>

**4. Contributions Receivable**

Unconditional promises are expected to be received in the following periods at June 30, 2012 and 2011 (in thousands):

	<b>2012</b>	<b>2011</b>
In one year or less	\$ 7,354	\$ 5,280
Between one and five years	4,924	7,080
Greater than five years	128	309
	<u>12,406</u>	<u>12,669</u>
Less:		
Discount to present value	(301)	(504)
Allowance for doubtful contributions	(501)	(585)
	<u>\$ 11,604</u>	<u>\$ 11,580</u>

As of June 30, 2012 and 2011, the University has approximately \$21,180,000 and \$17,867,000, respectively, of cumulative conditional promises to give that are not recognized as assets in the accompanying consolidated statement of financial position.

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**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, 2012 and 2011, student loans represented 3.1% of total assets.

Student loans receivable consist of the following at June 30, 2012 and 2011 (in thousands):

	<b>2012</b>		
	<b>Federal</b>		
	<b>Government Programs</b>	<b>Institutional Programs</b>	<b>Total</b>
Student loans receivable	\$ 12,350	\$ 11,763	\$ 24,113
Less allowance for doubtful accounts:			
Beginning of year	(486)	(264)	(750)
Increases	(84)	(108)	(192)
Write-offs	-	106	106
End of year	(570)	(266)	(836)
Student loans receivable, net	<u>\$ 11,780</u>	<u>\$ 11,497</u>	<u>\$ 23,277</u>

	<b>2011</b>		
	<b>Federal</b>		
	<b>Government Programs</b>	<b>Institutional 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>

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, 2012 and 2011 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.

The following amounts were past due under student loan programs at June 30, 2012 and 2011 (in thousands):

	<b>Total</b>			
	<b>1-60 days</b>	<b>60-90 days</b>	<b>90+ days</b>	<b>past due</b>
June 30, 2012	\$ 27	\$ 13	\$ 1,299	\$ 1,339
June 30, 2011	32	28	1,247	1,307



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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, 2012 are as follows (comparative totals are included for 2011) (in thousands):

	2012			2011 Total
	Endowment and Similar Funds	Split-Interest Agreements	Total	
Cash and cash equivalents	\$ 178	\$ 230	\$ 408	\$ 4,127
Equity securities	101,092	11,976	113,068	144,994
Fixed income securities	31,715	6,653	38,368	42,660
Commodities	10,949	-	10,949	16,696
Alternative investments				
Equity funds	105,888	-	105,888	93,234
Fixed income funds	49,690	-	49,690	30,972
Private equity funds	34,811	-	34,811	39,315
Real estate	32,415	-	32,415	29,704
Total investments	\$ 366,738	\$ 18,859	\$ 385,597	\$ 401,702

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.

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The following table summarizes key provisions for the University's alternative investments valued at NAV as of June 30, 2012:

	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	\$111,364	13	NA	\$ --	NA	Ranges between quarterly redemption with 30 to 90 days' notice to annual redemption with 45 to 90 days' notice.	2 funds have lock up provisions of up to 3 years and limits on redemption of 1/3 annually. 3 funds have a lock up provisions of 2 years. 3 funds have lock up provisions of 1 year. Illiquid investments exist for 3 of the funds.	1 fund has a 2 year lockup provision expiring in 2014.
<b>Private Equity</b>	Venture capital and buyout, in the U.S. and international	34,627	24	1 to 10 years	9,417	1 to 10 years	Private equity structure with no ability to be redeemed.	NR	NR
<b>Directional Hedge</b>	Global long/short equity funds	44,214	3	NA	--	NA	Quarterly redemption with 60 days' notice.	2 funds have lock up provisions of up to 1 year. Illiquid investments exist for 1 fund.	None
<b>Real Estate</b>	U.S. real estate	5,783	2	5 to 8 years	7,056	5 to 8 years	Private equity structure with no ability to redeem.	NR	NR
<b>Total</b>		<b>\$195,988</b>	<b>42</b>		<b>\$16,473</b>				

NA = not applicable

NR = The University cannot redeem these investments.

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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, 2012, with comparative totals for 2011, is summarized as follows (in thousands):

	<u>2012</u>				<u>2011</u> <u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Total</u>	
Investment income on endowment and similar funds	\$ 1,227	\$ 17	\$ 78	\$ 1,322	\$ 2,017
Net realized and unrealized gains (losses) on investments	(1,083)	(3,266)	-	(4,349)	66,334
Return on endowment and similar funds	144	(3,249)	78	(3,027)	68,351
Other investment income	2,437	541	30	3,008	3,263
Total return on investments	<u>2,581</u>	<u>(2,708)</u>	<u>108</u>	<u>(19)</u>	<u>71,614</u>
Investment return designated for current unrestricted operations	<u>(11,786)</u>	<u>(7,899)</u>	<u>-</u>	<u>(19,685)</u>	<u>(21,154)</u>
Investment return net of return utilized	<u>\$ (9,205)</u>	<u>\$ (10,607)</u>	<u>\$ 108</u>	<u>\$ (19,704)</u>	<u>\$ 50,460</u>

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Investment income is net of investment management fees of approximately \$314,000 and \$366,000 for the years ended June 30, 2012 and 2011, 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 5.3% and 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, 2012 and 2011, respectively.

The spending rule distributions for fiscal years 2012 and 2011, respectively, were \$0.289 and \$0.328 per time weighted unit, comprised of, respectively, \$0.050 and \$0.066 of income and \$0.239 and \$0.262 of distributions from current and accumulated net gains. At June 30, 2012 there were a total of 63,160,043 units in the pooled endowment and similar funds, each having a fair value of \$5.524. Of the total units, 31,290,146 were owned by endowment funds and 31,869,897 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, 2012 and in each of the prior four years is as follows:

	<b>Income Per Time- Weighted Unit</b>	<b>Fair Value Per Unit</b>
2012	\$ 0.050	\$ 5.524
2011	0.066	5.827
2010	0.075	5.064
2009	0.091	4.863
2008	0.115	6.479

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 \$3,289,000 and \$1,474,000 at June 30, 2012 and 2011, 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.

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**Endowment and Similar Funds**

The endowment and similar funds' net asset composition as of June 30, 2012 and 2011 and the changes for the years then ended are as follows (in thousands):

	<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted	\$ -	\$ 72,243	\$ 118,897	\$ 191,140
Quasi-endowment	154,066	-	-	154,066
<b>Total</b>	<b>\$ 154,066</b>	<b>\$ 72,243</b>	<b>\$ 118,897</b>	<b>\$ 345,206</b>
Balance, July 1, 2011	\$ 164,133	\$ 80,829	\$ 115,300	\$ 360,262
Investment return:				
Investment income	3,144	17	-	3,161
Net appreciation realized and unrealized	(958)	(3,129)	-	(4,087)
Total investment return	2,186	(3,112)	-	(926)
Contributions	927	52	3,597	4,576
Appropriated for expenditure	(11,360)	(7,341)	-	(18,701)
Provision for underwater funds	(1,815)	1,815	-	-
Other changes	(5)	-	-	(5)
<b>Balance, June 30, 2012</b>	<b>\$ 154,066</b>	<b>\$ 72,243</b>	<b>\$ 118,897</b>	<b>\$ 345,206</b>
	<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
Total investment return	37,104	30,657	-	67,761
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>

**Split-Interest Agreements**

Investments include the following split-interest agreements at June 30, 2012 and 2011 (in thousands):

	<b>2012</b>	<b>2011</b>
Charitable gift annuities	\$ 9,040	\$ 8,442
Charitable remainder trusts	7,999	8,064
Pooled income funds	1,820	1,857
	<b>\$ 18,859</b>	<b>\$ 18,363</b>

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**7. Land, Buildings and Equipment**

Land, buildings and equipment consist of the following at June 30, 2012 and 2011 (in thousands):

	<b>2012</b>	<b>2011</b>
Land and land improvements	\$ 16,096	\$ 15,939
Buildings	279,494	270,307
Equipment	34,439	30,203
	<u>330,029</u>	<u>316,449</u>
Less: Accumulated depreciation	(153,916)	(139,678)
	<u>176,113</u>	<u>176,771</u>
Construction-in-progress	73,204	35,481
	<u>\$ 249,317</u>	<u>\$ 212,252</u>

Depreciation expense charged to operations was approximately \$14,756,000 and \$14,778,000 for the years ended June 30, 2012 and 2011, respectively. Net interest cost capitalized was approximately \$3,036,000 and \$3,063,000 for the years ended June 30, 2012 and 2011, respectively.

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**8. Bonds and Notes Payable**

Bonds and notes payable consist of the following (in thousands) at June 30, 2012 and 2011:

<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, 2012</b>	<b>Balance, June 30, 2011</b>
<b>Bonds payable</b>						
Housing and Urban Development 1969 Series C (1)	4/1/2019	3.0	\$ 1,160	\$ 35	\$ 282	\$ 317
Massachusetts Development Finance Agency 2007 Series (3)	9/1/2047	4.0-5.0	81,915	550	80,078	82,008
Massachusetts Development Finance Agency 2008 Series A & B (2)	9/1/2035	Variable	54,815	1,670	53,475	53,785
Massachusetts Development Finance Agency 2010 Series (4)	9/1/2045	4.5-5.0	56,000	-	56,070	56,072
<b>Uncollateralized notes</b>						
TD Bank	1/17/2019	4.14	7,501	248	7,393	-
TD Bank Note A	6/8/2015	4.69	3,656		-	3,545
TD Bank Note B	6/8/2017	5.35	4,201		-	4,083
Worcester Business Development Corp.	9/1/2014	5.0	1,766	367	820	1,169
<b>Capital lease obligations</b>	Various	Various		520	1,685	1,703
<b>Total bonds and notes payable</b>				<b>\$ 3,390</b>	<b>\$ 199,803</b>	<b>\$ 202,682</b>

- (1) Collateralized by land, building and equipment known as Stoddard Residence Center and pledged net revenues from the operations of the dormitory.
- (2) The bonds, 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, 2012 and 2011 include a premium of approximately \$1,923,000 and \$1,978,000, respectively.
- (4) The bonds represent a general obligation of the University. The balances at June 30, 2012 and 2011 include a premium of approximately \$70,000 and \$72,000 respectively.

In compliance with the University's various bond indentures, funds held under bond agreements at June 30, 2012 and 2011 include investments of approximately \$3,788,000 and \$34,600,000, 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, 2012 and 2011 and the University's credit risk as of June 30, 2012 and 2011. The estimated fair value at June 30, 2012 and 2011 is approximately \$208,798,000 and \$207,106,000, respectively.

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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):

2013	\$	3,390
2014		4,616
2015		4,481
2016		4,359
2017		4,433
Thereafter		<u>176,531</u>
Total cash payments	\$	197,810
Premium		<u>1,993</u>
	\$	<u>199,803</u>

In January 2012, the University refinanced borrowings of \$7,501,000 in the form of two uncollateralized notes payable to TD Bank. The proceeds from the original borrowings in 2010 were used to refinance the debt assumed for the acquisition of the remaining interest in Gateway and New Garden Park. The borrowings consist of two notes payable with balloon payments due in 2019. Monthly installments of principal and interest totaling \$46,000 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 are being 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. 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 April 2013. Management expects to renew the letters of credit prior to expiration, however this is not guaranteed. 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



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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, \$5,348, \$10,695, \$10,695, \$10,695 and \$16,042.

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 a 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, 2012 and 2011.

**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, 2012 (in thousands):

	<b>Series 2008 A&amp;B</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 w hen LIBOR is $\geq$ 4.00%	one-month LIBOR	
		SIFMA Municipal Sw ap Index w hen LIBOR is < 4.00%		
Fair Value Liability				Total, net
June 30, 2012	\$ 4,776	\$ 8,336	\$ 449	\$ 13,561
June 30, 2011	\$ 3,096	\$ 3,949	\$ 548	\$ 7,593

The net unrealized loss that was recognized for the interest rate swap agreements for the year ended June 30, 2012, was approximately \$5,968,000 and has been recorded in net realized and unrealized losses on interest rate agreements on the accompanying consolidated statement of activities. At June 30, 2011, the fair value liability for interest rate swap agreements totaled \$7,593,000 and the net unrealized gain recognized in the accompanying consolidated statement of activities for the year ended was approximately \$1,289,000.

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

The interest rate swap agreements under Barclays and Deutsche contain provisions requiring collateral postings should the fair value liability of the University exceed certain amounts based on the University's long term credit ratings. The collateral posting provision for the agreement with Deutsche is triggered should the fair value liability exceed \$40 million and the University's long term credit rating remains at A1/A+. The collateral posting provision for the two agreements with Barclays is triggered should the combined fair value liability exceed \$40 million and the University's long term credit rating declines to A2/A. At its current ratings level of A1/A+, no amount of fair value liability will trigger a posting requirement. The provisions with both counterparties provide that the liability threshold decreases if the University's long term credit ratings decline. At June 30, 2012, 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 \$6,120,000 and \$5,836,000 for the years ended June 30, 2012 and 2011, respectively. Contributions are based upon a percentage of the employees' compensation.

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**11. Net Assets**

Net assets consist of the following at June 30, 2012 and 2011 (in thousands):

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endow ment funds				
Long-term investment (quasi - endow ment)	\$ 154,066	\$ -	\$ -	\$ 154,066
Original principal	-	-	118,897	118,897
Unspent income and appreciation				
Scholarship support	-	39,105	-	39,105
Faculty support	-	11,203	-	11,203
Program support	-	21,935	-	21,935
Total endow ment funds	<u>154,066</u>	<u>72,243</u>	<u>118,897</u>	<u>345,206</u>
Split-interest agreements and perpetual trusts	-	6,673	22,476	29,149
Student loan funds	12,031	-	3,415	15,446
Gifts and other unexpended revenues				
Acquisition of building and equipment	-	5,812	-	5,812
Instruction, research, and institutional support	-	7,772	-	7,772
Undesignated	68,153	-	-	68,153
	<u>\$ 234,250</u>	<u>\$ 92,500</u>	<u>\$ 144,788</u>	<u>\$ 471,538</u>

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endow ment funds				
Long-term investment (quasi - endow ment)	\$ 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 endow ment funds	<u>164,133</u>	<u>80,829</u>	<u>115,300</u>	<u>360,262</u>
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>

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**12. Expenses by Functional Category**

Following are expenses categorized by function (in thousands):

	2012	2011
Instruction and department research	\$ 75,032	\$ 70,476
Sponsored research	17,510	19,794
External relations	9,199	7,819
Institution and academic support	37,715	33,777
Student services	13,100	12,466
Auxiliary enterprises	18,138	18,442
	<u>\$ 170,694</u>	<u>\$ 162,774</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 \$5,001,000 and \$4,212,000 of fundraising expenses for the years ended June 30, 2012 and 2011, 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. 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.

**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 \$7,328,000 in outstanding mortgage and construction notes payable with TD Banknorth, N.A. for which the University entered into limited guarantees. As of June 30, 2012, the amount guaranteed by the University is approximately \$916,000.

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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#### **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, 2012 and 2011, funds held for others in the consolidated statements of financial position includes Alumni Association assets of \$2,315,000 and \$2,387,000, respectively.

#### **15. Commitments and Contingencies**

##### **Construction Contracts**

For the year ended June 30, 2012, 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. Funds to satisfy the remainder of this commitment are included in funds held under bond agreements at June 30, 2012.

Subsequent to year end, the University has contracted for the construction of a parking garage with rooftop sports fields and a 258-bed residence hall. The total project costs are estimated to approximately be \$21,000,000 and \$39,000,000, respectively. Funds to satisfy these commitments are included in cash and cash equivalents at June 30, 2012 with additional funding anticipated through a debt issue to take place in October 2012.

##### **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, 2012, the University had unfunded commitments of approximately \$16,473,000 that can be called through 2020. These commitments will be funded from the University’s existing cash and investments.

##### **Operating Leases**

The University is obligated under noncancelable operating leases for office space and storage facilities. 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 fall of 2012. The future minimum rental commitments for the next five years under these agreements as of June 30, 2012, are approximately as follows (in thousands):

2012	\$	1,084
2013		1,297
2014		1,122
2015		1,057
2016		1,057

Rental expense was approximately \$453,000 and \$374,000 for the years ended June 30, 2012 and 2011, 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 \$1,798,000 to six 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.

# **Worcester Polytechnic Institute**

## **Notes to Consolidated Financial Statements**

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#### **Uncertain Tax Positions**

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

#### **Sponsored Research**

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

#### **Other Commitments and Contingencies**

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

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

## **16. Current Developments and Subsequent Events**

#### **Fair Value Disclosures**

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, 2012 through September 21, 2012, 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 other than the construction contracts as disclosed in Note 15.