

Worcester Polytechnic Institute

**Consolidated Financial Statements
June 30, 2014 and 2013**

Worcester Polytechnic Institute
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June 30, 2014 and 2013

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Independent Auditor's Report

To the Board of Trustees of
Worcester Polytechnic Institute

We have audited the accompanying consolidated financial statements of Worcester Polytechnic Institute and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013 and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Worcester Polytechnic Institute and its subsidiaries at June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

November 10, 2014

Worcester Polytechnic Institute
Consolidated Statements of Financial Position
June 30, 2014 and 2013 (in thousands)

	2014	2013
Assets		
Cash and cash equivalents	\$ 18,099	\$ 15,896
Accounts receivable, net	7,580	8,829
Contributions receivable, net	7,364	9,211
Funds held under bond agreements	3,670	15,780
Prepaid expenses and other assets	8,483	6,706
Student loans receivable, net	23,107	23,492
Beneficial interest in trusts	24,500	22,482
Investments	462,816	417,014
Land, buildings and equipment, net	307,916	299,170
	<u> </u>	<u> </u>
Total assets	<u>\$ 863,535</u>	<u>\$ 818,580</u>
Liabilities		
Accounts payable and accrued liabilities	21,914	25,891
Deposits and deferred revenue	9,987	9,142
Split-interest agreements	10,515	10,672
Funds held for others	3,746	3,614
Asset retirement obligations	1,952	2,375
Refundable government loan funds	6,792	6,792
Bonds and notes payable	236,812	240,598
Interest rate agreements	9,068	9,269
	<u> </u>	<u> </u>
Total liabilities	<u>300,786</u>	<u>308,353</u>
Net assets		
Unrestricted	282,209	256,278
Temporarily restricted	121,771	102,404
Permanently restricted	158,769	151,545
	<u> </u>	<u> </u>
Total net assets	<u>562,749</u>	<u>510,227</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 863,535</u>	<u>\$ 818,580</u>

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

Worcester Polytechnic Institute
Consolidated Statement of Activities
Year Ended June 30, 2014 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	\$ 204,611	\$ -	\$ -	\$ 204,611
Less: Unrestricted student aid	61,077	-	-	61,077
Endow ed scholarships	5,859	-	-	5,859
Externally funded student aid	2,042	-	-	2,042
Total student aid	68,978	-	-	68,978
Net tuition and fees	135,633	-	-	135,633
Other educational activities	1,996	-	-	1,996
Contributions	4,234	1,894	-	6,128
Contract and exchange transactions	26,847	-	-	26,847
Investment income on endow ment and similar funds	1,983	18	73	2,074
Net realized gains on endow ment used for operations	7,255	7,239	-	14,494
Other investment income	2,120	502	81	2,703
Sales and services of auxiliary enterprises	26,204	-	-	26,204
Other	2,641	-	-	2,641
Total revenues	208,913	9,653	154	218,720
Net assets released from restriction	11,724	(11,724)	-	-
Total revenues and other support	220,637	(2,071)	154	218,720
Operating expenses				
Instruction and department research	97,053	-	-	97,053
Sponsored research and other sponsored programs	21,295	-	-	21,295
External relations	9,863	-	-	9,863
Institution and academic support	39,358	-	-	39,358
Student services	21,023	-	-	21,023
Auxiliary enterprises	24,713	-	-	24,713
Total operating expenses	213,305	-	-	213,305
Change in net assets from operating activities	7,332	(2,071)	154	5,415
Nonoperating				
Net realized and unrealized gains on investments	27,078	28,302	-	55,380
Net realized gains on endow ment used for operations	(7,255)	(7,239)	-	(14,494)
Decrease in provision for underw ater funds	893	(893)	-	-
Net unrealized gains on beneficial interest in trusts	-	32	1,831	1,863
Change in value of split-interest agreements	(341)	(257)	6	(592)
Contributions	-	1,493	5,233	6,726
Net realized and unrealized losses on interest rate agreements	(1,776)	-	-	(1,776)
Change in net assets from nonoperating activities	18,599	21,438	7,070	47,107
Total change in net assets	25,931	19,367	7,224	52,522
Net assets, beginning of year	256,278	102,404	151,545	510,227
Net assets, end of year	\$ 282,209	\$ 121,771	\$ 158,769	\$ 562,749

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

Worcester Polytechnic Institute
Consolidated Statement of Activities
Year Ended June 30, 2013 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	\$ 188,847	\$ -	\$ -	\$ 188,847
Less: Unrestricted student aid	56,330	-	-	56,330
Endow ed scholarships	5,011	-	-	5,011
Externally funded student aid	2,877	-	-	2,877
Total student aid	64,218	-	-	64,218
Net tuition and fees	124,629	-	-	124,629
Other educational activities	2,085	-	-	2,085
Contributions	5,820	3,572	-	9,392
Contract and exchange transactions	23,714	-	-	23,714
Investment income on endow ment and similar funds	1,883	22	73	1,978
Net realized gains on endow ment used for operations	7,328	6,827	-	14,155
Other investment income	2,095	550	66	2,711
Sales and services of auxiliary enterprises	22,076	-	-	22,076
Other	2,227	-	-	2,227
Total revenues	191,857	10,971	139	202,967
Net assets released from restriction	16,175	(16,175)	-	-
Total revenues and other support	208,032	(5,204)	139	202,967
Operating expenses				
Instruction and department research	91,608	-	-	91,608
Sponsored research and other sponsored programs	18,873	-	-	18,873
External relations	9,806	-	-	9,806
Institution and academic support	39,242	-	-	39,242
Student services	18,363	-	-	18,363
Auxiliary enterprises	19,601	-	-	19,601
Total operating expenses	197,493	-	-	197,493
Change in net assets from operating activities	10,539	(5,204)	139	5,474
Nonoperating				
Net realized and unrealized gains on investments	15,519	20,209	-	35,728
Net realized gains on endow ment used for operations	(7,328)	(6,827)	-	(14,155)
Decrease in provision for underw ater funds	1,663	(1,663)	-	-
Net unrealized gains on beneficial interest in trusts	-	316	864	1,180
Change in value of split-interest agreements	(641)	31	15	(595)
Contributions	-	3,042	5,739	8,781
Net realized and unrealized gains on interest rate agreements	2,276	-	-	2,276
Change in net assets from nonoperating activities	11,489	15,108	6,618	33,215
Total change in net assets	22,028	9,904	6,757	38,689
Net assets, beginning of year	234,250	92,500	144,788	471,538
Net assets, end of year	\$ 256,278	\$ 102,404	\$ 151,545	\$ 510,227

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

Worcester Polytechnic Institute
Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013 (in thousands)

	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 52,522	\$ 38,689
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation, amortization, and accretion	19,768	16,778
Provision for uncollectible receivables	1,006	395
Net realized and unrealized gains on investments	(57,245)	(36,908)
Net unrealized losses (gains) on interest rate agreements	1,776	(2,255)
Contributions other than cash	(4,537)	(3,713)
Contributions restricted for long-term investment	(5,823)	(8,746)
Proceeds from sale of donated securities	2,903	1,823
Changes in assets and liabilities:		
Accounts receivable	891	(1,402)
Contributions receivable	1,157	(604)
Prepaid expenses and other assets	(1,808)	(800)
Accounts payable and accrued liabilities	1,197	(3,005)
Deposits and deferred revenue	937	(403)
Split-interest agreements	(722)	(406)
Funds held for others	(180)	195
Asset retirement obligations	(495)	(1,261)
Total adjustments	(41,175)	(40,312)
Net cash provided by (used in) operating activities	11,347	(1,623)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	36,500	37,038
Purchase of investments	(25,334)	(31,487)
Purchase of land, buildings, and equipment	(31,971)	(62,835)
Proceeds from bonds deposited with trustees	-	(43,369)
Use of funds held under bond agreements	12,110	31,377
Disbursement of loans to students	(3,593)	(3,773)
Repayment of loans from students	3,679	3,482
Net cash used in investing activities	(8,609)	(69,567)
Cash flows from financing activities		
Contributions restricted for long-term investment	6,449	11,958
Deferred financing costs	-	(530)
Realized loss on interest rate agreements	(1,999)	(2,037)
Proceeds from long-term debt	-	43,369
Repayment of long-term debt	(4,985)	(3,589)
Net cash (used in) provided by financing activities	(535)	49,171
Net increase (decrease) in cash and cash equivalents	2,203	(22,019)
Cash and cash equivalents at beginning of year	15,896	37,915
Cash and cash equivalents at end of year	\$ 18,099	\$ 15,896
Supplemental disclosures of cash flow information		
Interest paid	\$ 8,705	\$ 7,807
Contributed securities	\$ 3,856	\$ 2,459
Gifts-in-kind	\$ 691	\$ 1,254
Purchases of buildings and equipment included in accounts payable	\$ 2,008	\$ 10,970
Leased equipment	\$ 1,277	\$ 1,095
Refinancing of debt	\$ 7,122	\$ -

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

Worcester Polytechnic Institute

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

1. Organization

Worcester Polytechnic Institute (the “University”), founded in 1865, is the nation’s third oldest private engineering university. Approximately 5,900 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 owned and operated an approximately 124,600 square foot life sciences and bioengineering facility located in the Gateway Park area of Worcester. Ownership of the life sciences and bioengineering facility was transferred to Washburn Park, Inc. and Newgate was dissolved as of June 30, 2014.

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. During the year end June 30, 2014, the life sciences and bioengineering facility owned by Newgate and land owned by 75 Grove Street, LLC was transferred to Washburn.

75 Grove Street, LLC (“Grove Street”)

Grove Street owns a parcel of land being used for the construction of a residence hall. Ownership of the land was transferred to Washburn and Grove Street was dissolved as of June 30, 2014.

Worcester Polytechnic Institute

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Lancaster Island, LLC (“Lancaster”)

Lancaster owns land located in the Gateway Park area of Worcester and is the lessee of a parcel of land being used for student parking.

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, gains or losses on beneficial interest in trusts, change in value of split-interest agreements, net contributions for endowment and capital use, and gains or losses on interest rate 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, 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, its self-insured medical claims, 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.

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Notes to Consolidated Financial Statements
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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.

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.

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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, 2014 and 2013 as follows (in thousands):

2014				
Assets	Level 1	Level 2	Level 3	Total
Funds held under bond agreements	\$ 3,670	\$ -	\$ -	\$ 3,670
Investments				
Cash and cash equivalents	4,452	-	-	4,452
Equity securities	131,860	7,456	-	139,316
Fixed income securities	50,687	265	-	50,952
Commodities	14,060	-	-	14,060
Alternative investments				
Equity funds	-	89,611	57,515	147,126
Fixed income funds	-	9,297	40,121	49,418
Private equity funds	-	-	28,968	28,968
Real estate	-	-	28,524	28,524
Total investments	201,059	106,629	155,128	462,816
Beneficial interest in trusts	-	-	24,500	24,500
Total assets at fair value	<u>\$ 204,729</u>	<u>\$ 106,629</u>	<u>\$ 179,628</u>	<u>\$ 490,986</u>
Liabilities				
Interest rate agreements	<u>\$ -</u>	<u>\$ (3,468)</u>	<u>\$ (5,600)</u>	<u>\$ (9,068)</u>
2013				
Assets	Level 1	Level 2	Level 3	Total
Funds held under bond agreements	\$ 15,780	\$ -	\$ -	\$ 15,780
Investments				
Cash and cash equivalents	3,061	-	-	3,061
Equity securities	115,216	6,305	-	121,521
Fixed income securities	43,001	276	-	43,277
Commodities	9,744	-	-	9,744
Alternative investments				
Equity funds	-	76,098	50,947	127,045
Fixed income funds	-	8,456	43,442	51,898
Private equity funds	-	-	31,758	31,758
Real estate	-	-	28,710	28,710
Total investments	171,022	91,135	154,857	417,014
Beneficial interest in trusts	-	-	22,482	22,482
Total assets at fair value	<u>\$ 186,802</u>	<u>\$ 91,135</u>	<u>\$ 177,339</u>	<u>\$ 455,276</u>
Liabilities				
Interest rate agreements	<u>\$ -</u>	<u>\$ (3,704)</u>	<u>\$ (5,565)</u>	<u>\$ (9,269)</u>

Worcester Polytechnic Institute
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

The following table summarizes the changes in the Level 3 financial instruments carried at fair value during the years ended June 30, 2014 and 2013 (in thousands):

	Alternative Investments				Total Alternative Investments	Beneficial Interest in Trusts	Total Level 3 Assets
	Equity Funds	Fixed Income Funds	Private Equity Funds	Real Estate			
Fair value, June 30, 2012	\$ 46,741	\$ 42,022	\$ 34,811	\$ 24,763	\$ 148,337	\$ 21,423	\$ 169,760
Net realized and unrealized gains	6,094	2,128	2,953	(4,711)	6,464	1,180	7,644
Purchases	5,000	-	2,694	2,168	9,862	-	9,862
Sales and settlements	(6,888)	(708)	(8,700)	(1,322)	(17,618)	(121)	(17,739)
Transfers	-	-	-	7,812	7,812	-	7,812
Fair value, June 30, 2013	50,947	43,442	31,758	28,710	154,857	22,482	177,339
Net realized and unrealized gains	6,607	3,313	2,633	1,131	13,684	1,863	15,547
Purchases	4,544	5,000	2,706	1,977	14,227	155	14,382
Sales and settlements	(4,583)	(11,634)	(8,129)	(3,294)	(27,640)	-	(27,640)
Transfers	-	-	-	-	-	-	-
Fair value, June 30, 2014	\$ 57,515	\$ 40,121	\$ 28,968	\$ 28,524	\$ 155,128	\$ 24,500	\$ 179,628

	Interest Rate Agreements	Total Level 3 Liabilities
Fair value, June 30, 2012	\$ (8,336)	\$ (8,336)
Net realized and unrealized losses	2,771	2,771
Purchases	-	-
Sales and settlements	-	-
Transfers	-	-
Fair value, June 30, 2013	(5,565)	(5,565)
Net realized and unrealized losses	(35)	(35)
Purchases	-	-
Sales and settlements	-	-
Transfers	-	-
Fair value, June 30, 2014	\$ (5,600)	\$ (5,600)

In the consolidated statement of activities for the years ended June 30, 2014 and 2013, 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 gains and losses on Level 3 financial liabilities are included in nonoperating net realized and unrealized gains and losses on interest rate agreements.

For the year ended June 30, 2013, appraisals were obtained for certain real estate investments where the valuation was determined using the sales comparison and income capitalization methods. Due to some of the unobservable inputs used in these valuations, certain real estate investments were transferred from Level 2 to Level 3. There were no transfers for the year ended June 30, 2014.

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Notes to Consolidated Financial Statements

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

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Promises to give that are scheduled to be received after the fiscal year-end are shown as increases in 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 2.6%. 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, 2014 and 2013, deferred financing costs, net totaled approximately \$2,709,000 and \$2,796,000 respectively. Amortization expense for the years ended June 30, 2014 and 2013 was approximately \$87,000 and \$74,000, respectively. The estimated amortization expense for deferred financing costs for the next five years is approximately \$88,000 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.

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

Gains or losses on investments are reported in the consolidated statements of activities as increases or decreases in 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

Deposits and Deferred Revenue

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

Included in deposits and deferred revenue is the realized gain on an interest rate-lock contract on borrowings in 2007. The gain is being amortized over the life of the related bonds. For the years ended June 30, 2014 and 2013, the net deferred gain totaled \$2,318,000 and \$2,390,000, respectively.

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

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amounts are estimable and probable, such amounts are not recognized in the financial statements. The present value of payments to beneficiaries under split-interest arrangements is calculated using discount rates in effect at the date of the gift; these rates range from approximately 1.2% to 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 years ended June 30, 2014 and 2013, the estimate to decommission a nuclear reactor was revised and the associated ARO liability was reduced by approximately \$130,000 and \$868,000, respectively. 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.

3. Accounts Receivable

Accounts receivable consist of the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
Sponsored research	\$ 4,461	\$ 4,571
Student receivables	2,860	3,047
Other receivables	1,216	1,920
	<u>8,537</u>	<u>9,538</u>
Less: Allowance for doubtful accounts	(957)	(709)
	<u>\$ 7,580</u>	<u>\$ 8,829</u>

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4. Contributions Receivable

Unconditional promises are expected to be received in the following periods at June 30, 2014 and 2013 (in thousands):

	2014	2013
In one year or less	\$ 4,227	\$ 4,249
Between one and five years	3,742	5,282
Greater than five years	<u>0</u>	<u>316</u>
	7,969	9,847
Less:		
Discount to present value	(95)	(177)
Allowance for doubtful contributions	<u>(510)</u>	<u>(459)</u>
	<u>\$ 7,364</u>	<u>\$ 9,211</u>

As of June 30, 2014 and 2013, the University has approximately \$78,921,000 and \$32,485,000, respectively, of cumulative conditional promises to give that are not recognized as assets in the accompanying consolidated statements of financial position.

5. Student Loans Receivable

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2014 and 2013, student loans represented 2.7% and 2.9% of total assets, respectively.

Student loans receivable consist of the following at June 30, 2014 and 2013 (in thousands):

	2014			2013		
	Federal Government Programs	Institutional Programs	Total	Federal Government Programs	Institutional Programs	Total
Student loans receivable	\$ 12,448	\$ 11,620	\$ 24,068	\$ 12,376	\$ 11,936	\$ 24,312
Less allowance for doubtful accounts:						
Beginning of year	(566)	(254)	(820)	(570)	(266)	(836)
Decreases (increases)	(90)	(209)	(299)	4	(76)	(72)
Write-offs	<u>-</u>	<u>158</u>	<u>158</u>	<u>-</u>	<u>88</u>	<u>88</u>
End of year	<u>(656)</u>	<u>(305)</u>	<u>(961)</u>	<u>(566)</u>	<u>(254)</u>	<u>(820)</u>
Student loans receivable, net	<u>\$ 11,792</u>	<u>\$ 11,315</u>	<u>\$ 23,107</u>	<u>\$ 11,810</u>	<u>\$ 11,682</u>	<u>\$ 23,492</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, 2014 and 2013 are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan.

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The following amounts were past due under student loan programs at June 30, 2014 and 2013 (in thousands):

	<u>1-60 days</u>	<u>60-90 days</u>	<u>90+ days</u>	<u>Total past due</u>
June 30, 2014	\$ 34	\$ 11	\$ 1,294	\$ 1,339
June 30, 2013	41	4	1,344	1,389

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, 2014 are as follows (comparative totals are included for 2013) (in thousands):

	<u>2014</u>			<u>2013 Total</u>
	<u>Endowment and Similar Funds</u>	<u>Split-Interest Agreements</u>	<u>Total</u>	
Cash and cash equivalents	\$ 4,273	\$ 179	\$ 4,452	\$ 3,061
Equity securities	124,360	14,956	139,316	121,521
Fixed income securities	44,522	6,430	50,952	43,277
Commodities	14,060	-	14,060	9,744
Alternative investments				
Equity funds	147,126	-	147,126	127,045
Fixed income funds	49,418	-	49,418	51,898
Private equity funds	28,968	-	28,968	31,758
Real estate	28,524	-	28,524	28,710
Total investments	<u>\$ 441,251</u>	<u>\$ 21,565</u>	<u>\$ 462,816</u>	<u>\$ 417,014</u>

Fair values of equity, fixed income and commodity securities are generally based on published market values. The University invests in hedge funds, private equity, and real estate investments through various limited partnerships and similar vehicles. Hedge funds utilize a variety of investment strategies incorporating marketable securities and, in some cases, derivative instruments, all of which are reported at estimated fair value by the fund managers. Private equity funds consist of long-term private investments and have been valued based on estimates provided by the general partners of the investment vehicles. 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. The fair values of the real estate investments in privately held entities have been valued based on the NAV provided by the fund managers of these investment vehicles. The fair values of direct real estate holdings have been prepared giving consideration to periodic independent external appraisers, as well as the income, cost and sales comparison approaches of estimating property value. The income approach estimates an income stream for a property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. A second technique is the direct capitalization analysis. Direct capitalization involves capitalizing a property's first year, or stabilized net operating income in to a value estimate. Yield rates and growth assumptions utilized in both approaches are derived from market transactions as well as other financial and industry data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. Generally,

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this approach provides a check on the value derived using the income approach. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for dissimilarities which typically provide a range of value. The income capitalization and sales comparison approach were used to value the direct real estate investments for the year ended June 30, 2013. The capitalization rates, sales price per acre of comparable properties and the comparability adjustments are considered to be significant unobservable inputs to these valuations. These rates and adjustments vary and are based on the location, type and nature of each property, and current and anticipated market conditions. Appraisals for any direct real estate holding were prepared by independent external appraisers. Management considered changes in the local real estate market and the use of the properties and believes the June 30, 2013 appraisals approximate fair value for real estate holdings at June 30, 2014. During the year ended June 30, 2014, a parcel of undeveloped land held at June 30, 2013 was used for the construction of a residence hall and is included in land, buildings, and equipment on the consolidated statement of financial position for the year ended June 30, 2014.

The following table summarizes the valuation methods and quantitative information about the significant unobservable inputs used in the fair value measurement of Level 3 direct real estate holdings at June 30, 2014 and 2013 not valued at NAV (in thousands):

Real estate investment	Fair Value at June 30, 2014	Fair Value at June 30, 2013	Valuation Technique	Unobservable Input	Range
Commercial real estate, Worcester, MA	\$ 7,400	\$ 7,400	Income capitalization	Capitalization Rate	5.39% - 9.56%
Leased land, Worcester, MA	4,730	4,730	Income capitalization	Capitalization Rate	5.0% - 7.25%
Parking garage, Worcester, MA	3,475	3,475	Income capitalization	Capitalization Rate	8.25%
Undeveloped land, Worcester, MA	-	1,740	Sales comparison	Price per acre	\$0.7M - \$1.4M
				Comparability adjustments	-5% - +45%
Undeveloped land, Worcester, MA	1,740	1,740	Sales comparison	Price per acre	\$0.7M - \$1.4M
				Comparability adjustments	-20% - +30%
Undeveloped land, Worcester, MA	1,600	1,600	Sales comparison	Price per acre	\$0.7M - \$1.4M
				Comparability adjustments	-5% - +45%
	<u>\$ 18,945</u>	<u>\$ 20,685</u>			

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The following table summarizes key provisions for the University's alternative investments valued at NAV as of June 30, 2014 (in thousands):

	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
Absolute Return – Market Neutral	Global equity and fixed income funds in market neutral strategies	\$126,102	12	NA	\$ --	NA	Ranges between quarterly redemption with 60 to 90 days' notice to annual redemption with 45 to 90 days' notice.	2 funds have limits on redemption of 1/3 annually. Illiquid investments exist for 3 of the funds.	None
Private Equity	Venture capital and buyout, in the U.S. and international	27,762	24	1 to 9 years	5,223	1 to 9 years	Private equity structure with no ability to be redeemed.	Not redeemable	Not redeemable
Directional Hedge	Global long/short equity funds	70,441	3	NA	--	NA	Quarterly redemption with 60 days' notice.	Illiquid investments exist for 1 of the funds.	None
Real Estate	U.S. real estate	8,961	3	3 to 7 years	9,736	1 to 7 years	Private equity structure with no ability to redeem.	Not redeemable	Not redeemable
Total		\$233,266	42		\$14,959				

NA = not applicable

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The following table summarizes key provisions for the University's alternative investments valued at NAV as of June 30, 2013 (in thousands):

	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
Absolute Return – Market Neutral	Global equity and fixed income funds in market neutral strategies	\$119,939	12	NA	\$ --	NA	Ranges between quarterly redemption with 30 to 90 days' notice to annual redemption with 45 to 90 days' notice.	2 funds have limits on redemption of 1/3 annually. 1 fund has a lock up provision of 2 years. Illiquid investments exist for 3 of the funds.	1 fund has a 2 year lockup provision expiring in 2014.
Private Equity	Venture capital and buyout, in the U.S. and international	31,225	24	1 to 9 years	7,173	1 to 9 years	Private equity structure with no ability to be redeemed.	Not redeemable	Not redeemable
Directional Hedge	Global long/short equity funds	59,004	3	NA	--	NA	Quarterly redemption with 60 days' notice.	Illiquid investments exist for 1 of the funds.	None
Real Estate	U.S. real estate	7,479	2	4 to 7 years	4,936	4 to 7 years	Private equity structure with no ability to redeem.	Not redeemable	Not redeemable
Total		\$217,647	41		\$12,109				

NA = not applicable

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Endowment Income and Spending

In addition to current yield (interest, dividends, and net rental income), the University has interpreted state law to allow for the utilization of capital appreciation on permanently restricted endowment funds unless explicit donor stipulations specify how net appreciation must be used. Accordingly, the University segregates capital appreciation between that which can be used for current operations and that which is attributable to permanently restricted endowment funds. For financial reporting purposes, current yield and capital appreciation attributed to permanently restricted endowment funds are considered 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. 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
Private equity	8
Flexible capital	25
Fixed income	12
Real assets	18

The University’s investment return for the year ended June 30, 2014, with comparative totals for 2013, is summarized as follows (in thousands):

	<u>2014</u>				<u>2013</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 endow ment and similar funds	\$ 1,983	\$ 18	\$ 73	\$ 2,074	\$ 1,978
Net realized and unrealized gains on investments	27,078	28,302	-	55,380	35,728
Return on endow ment and similar funds	29,061	28,320	73	57,454	37,706
Other investment income	2,120	502	81	2,703	2,711
Total return on investments	31,181	28,822	154	60,157	40,417
Investment return designated for current unrestricted operations	(11,358)	(7,759)	-	(19,117)	(18,705)
Investment return net of return utilized	\$ 19,823	\$ 21,063	\$ 154	\$ 41,040	\$ 21,712

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Investment income is net of investment management fees of approximately \$516,000 and \$390,000 for the years ended June 30, 2014 and 2013, 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 5.0% and 5.2% of its endowment and similar funds' average unit fair value for the previous three years, one year removed, for the years ended June 30, 2014 and 2013, respectively.

The spending rule distributions for fiscal years 2014 and 2013, respectively, were \$0.273 per time weighted unit, comprised of, respectively, \$0.058 of income and \$0.215 of distributions from current and accumulated net gains. At June 30, 2014 there were a total of 66,311,275 units in the pooled endowment and similar funds, each having a fair value of \$6.313. Of the total units, 34,041,237 were owned by endowment funds and 32,270,038 were owned by internally designated funds. At June 30, 2013 there were a total of 64,911,689 units in the pooled endowment and similar funds, each having a fair value of \$5.753. Of the total units, 32,822,858 were owned by endowment funds and 32,088,831 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, 2014 and in each of the prior four years is as follows:

	Income Per Time- Weighted Unit	Fair Value Per Unit
2014	\$ 0.058	\$ 6.313
2013	0.058	5.753
2012	0.050	5.524
2011	0.066	5.827
2010	0.075	5.064

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 \$733,000 and \$1,626,000 at June 30, 2014 and 2013, 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, 2014 and 2013 and the changes for the years then ended are as follows (in thousands):

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted	\$ -	\$ 102,955	\$ 129,696	\$ 232,651
Quasi-endowment	183,556	-	-	183,556
Total	\$ 183,556	\$ 102,955	\$ 129,696	\$ 416,207
Balance, July 1, 2013	\$ 163,829	\$ 83,745	\$ 124,598	\$ 372,172
Investment return:				
Investment income	3,795	18	-	3,813
Net appreciation realized and unrealized	25,397	27,324	-	52,721
Total investment return	29,192	27,342	-	56,534
Contributions	854		5,098	5,952
Appropriated for expenditure	(11,212)	(7,239)	-	(18,451)
Decrease in provision for underwater funds	893	(893)	-	-
Balance, June 30, 2014	\$ 183,556	\$ 102,955	\$ 129,696	\$ 416,207

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted	\$ -	\$ 83,745	\$ 124,598	\$ 208,343
Quasi-endowment	163,829	-	-	163,829
Total	\$ 163,829	\$ 83,745	\$ 124,598	\$ 372,172
Balance, July 1, 2012	\$ 154,066	\$ 72,243	\$ 118,897	\$ 345,206
Investment return:				
Investment income	3,652	22	-	3,674
Net appreciation realized and unrealized	14,364	19,934	-	34,298
Total investment return	18,016	19,956	-	37,972
Contributions	1,147	36	5,701	6,884
Appropriated for expenditure	(11,063)	(6,827)	-	(17,890)
Decrease in provision for underwater funds	1,663	(1,663)	-	-
Balance, June 30, 2013	\$ 163,829	\$ 83,745	\$ 124,598	\$ 372,172

Split-Interest Agreements

Investments include the following split-interest agreements at June 30, 2014 and 2013 (in thousands):

	2014	2013
Charitable gift annuities	\$ 10,251	\$ 9,497
Charitable remainder trusts	9,502	8,602
Pooled income funds	1,812	1,731
	\$ 21,565	\$ 19,830

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7. Land, Buildings and Equipment

Land, buildings and equipment, net, consist of the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
Land and land improvements	\$ 27,657	\$ 22,387
Buildings	408,332	366,110
Equipment	<u>56,357</u>	<u>46,682</u>
	492,346	435,179
Less: Accumulated depreciation	<u>(188,182)</u>	<u>(170,705)</u>
	304,164	264,474
Construction-in-progress	<u>3,752</u>	<u>34,696</u>
	<u>\$ 307,916</u>	<u>\$ 299,170</u>

Depreciation expense charged to operations was approximately \$19,756,000 and \$16,789,000 for the years ended June 30, 2014 and 2013, respectively. Net interest cost capitalized was approximately \$213,000 and \$1,685,000 for the years ended June 30, 2014 and 2013, respectively.

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8. Bonds and Notes Payable

Bonds and notes payable consist of the following (in thousands) at June 30, 2014 and 2013:

Purpose and Definition	Maturity Date	Interest Rate %	Original Issue	Amount Due Within One Year	Balance, June 30, 2014	Balance, June 30, 2013
Bonds payable						
Housing and Urban Development 1969 Series C (1)	4/1/2019	3.0	\$ 1,160	40	\$ 207	\$ 247
Massachusetts Development Finance Agency 2007 Series (2)	9/1/2047	4.0-5.0	81,915	1,900	77,723	79,473
Massachusetts Development Finance Agency 2008 Series A & B (3)	9/1/2035	Variable	54,815	1,745	50,060	51,805
Massachusetts Development Finance Agency 2010 Series (4)	9/1/2045	4.5-5.0	56,000	-	56,064	56,066
Massachusetts Development Finance Agency 2012 Series (5)	9/1/2050	3.68-4.05	42,540	-	43,327	43,348
Uncollateralized notes						
TD Bank	7/1/2023	Variable	7,122	356	6,825	7,143
Worcester Business Development Corp.	9/1/2014	5.0	1,766	66	66	452
Capital lease obligations	Various	Various		911	2,540	2,064
Total bonds and notes payable				<u>\$ 5,018</u>	<u>\$ 236,812</u>	<u>\$ 240,598</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 represent a general obligation of the University. The balances at June 30, 2014 and 2013 include a premium of approximately \$1,813,000 and \$1,868,000, respectively.
- (3) The bonds, issued at par with no discount or premium, represent a general obligation of the University.
- (4) The bonds represent a general obligation of the University. The balances at June 30, 2014 and 2013 include a premium of approximately \$64,000 and \$66,000, respectively.
- (5) The bonds represent a general obligation of the University. The balances at June 30, 2014 and 2013 include a premium of approximately \$787,000 and \$808,000, respectively.

In compliance with the University's various bond indentures, funds held under bond agreements at June 30, 2014 and 2013 include investments of approximately \$3,670,000 and \$15,780,000, 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, 2014 and 2013 and the University's credit risk as of June 30, 2014 and 2013. The estimated fair value at June 30, 2014 and 2013 is approximately \$262,687,000 and \$240,615,000, respectively, and would be classified as Level 2 using the fair value hierarchy.

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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):

2015	\$ 5,018
2016	4,936
2017	4,978
2018	4,167
2019	4,204
Thereafter	<u>210,845</u>
Total cash payments	\$ 234,148
Premium	<u>2,664</u>
	<u>\$ 236,812</u>

In August 2013, the University refinanced borrowings of \$7,122,000 in the form of two uncollateralized notes payable to TD Bank. The proceeds from the original borrowings in 2010 were used to refinance the debt assumed for the acquisition of the remaining interest in Gateway and Washburn. The borrowings consist of two notes payable with balloon payments due in 2023. Monthly installments of principal totaling \$29,675 are paid based on a 20 year amortization with interest at 1.5% plus LIBOR, approximately 1.65% at June 30, 2014.

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

In January 2010, the University borrowed \$56,000,000 in the form of MDFA Revenue Bond Series 2010 (the "2010 Bonds"). The proceeds from the issue 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 rates at June 30, 2014 for the 2008A and 2008B Bonds were 0.06% and 0.12%, respectively. At June 30, 2013, the rates were 0.06% and 0.18%, respectively. 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.

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Payment of the principal of, the purchase price of, and interest on each series of the 2008 Bonds, when due, is collateralized by irrevocable direct pay letters of credit by TD Bank that expire in April 2018. The letters of credit include financial covenants that require that the University maintain minimum expendable net assets to debt of at least 0.65 and a minimum long term credit rating of A3/A-.

The 2008 Bonds can bear interest at a daily, weekly or monthly variable rate mode or at a fixed rate mode. Bonds in the variable rate mode are subject to tender at the election of the bondholders. In the event that the University receives notice of any optional tender of its bonds, or if these bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will be obligated to purchase the bonds tendered by drawing on the letters of credit. Such funds drawn on the letters of credit must be repaid in full within 180 days or converted to a 5 year term loan with quarterly payments commencing in the 15th month following the conversion. If this were to occur, principal amounts on the 2008 Bonds due over the next five years and thereafter would be \$0, \$5,006,000, \$10,012,000, \$10,012,000, \$10,012,000 and \$15,018,000.

In June 2007, the University borrowed \$81,915,000 in the form of MDFA Revenue Bonds, Worcester Polytechnic Institute, Series 2007, (the "2007 Bonds"). 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.

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, 2014 and 2013.

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, 2014 (dollars in thousands):

	Series 2008 A&B			
	Deutsche Bank AG	Barclays Bank PLC	Barclays Bank PLC	
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%		
	Series 2008 A&B			
Fair Value Liability	Deutsche Bank AG	Barclays Bank PLC	Barclays Bank PLC	Total, net
June 30, 2014	\$ 3,351	\$ 5,600	\$ 117	\$ 9,068
June 30, 2013	\$ 3,449	\$ 5,565	\$ 255	\$ 9,269

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The net unrealized gain that was recognized for the interest rate swap agreements for the year ended June 30, 2014, was approximately \$201,000 and has been recorded in net realized and unrealized losses on interest rate agreements on the accompanying consolidated statement of activities. At June 30, 2013, the fair value liability for interest rate swap agreements totaled \$9,269,000 and the net unrealized gain recognized in the accompanying consolidated statement of activities for the year ended was approximately \$4,292,000.

The interest rate swap agreements contain provisions requiring collateral postings should the fair value liability of the University exceed certain amounts based on the University's long term credit ratings. The collateral posting provision for the agreement with Deutsche Bank AG is triggered should the fair value liability exceed \$40 million and the University's long term credit rating remains at A1/A+. The collateral posting provision for the two agreements with Barclays Bank PLC is triggered should the combined fair value liability exceed \$40 million and the University's long term credit rating declines to A2/A. At its current ratings level of A1/A+, no amount of fair value liability will trigger a posting requirement for the Barclays Bank PLC agreements. The provisions with both counterparties provide that the liability threshold decreases if the University's long term credit ratings decline. At June 30, 2014, 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 \$7,123,000 and \$6,734,000 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013 (in thousands):

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment funds				
Long-term investment (quasi - endowment)	\$ 183,556	\$ -	\$ -	\$ 183,556
Original principal	-	-	129,696	129,696
Unspent income and appreciation				
Scholarship support	-	59,519	-	59,519
Faculty support	-	14,226	-	14,226
Program support	-	29,210	-	29,210
Total endowment funds	<u>183,556</u>	<u>102,955</u>	<u>129,696</u>	<u>416,207</u>
Split-interest agreements and perpetual trusts	-	8,251	25,364	33,615
Student loan funds	13,101		3,709	16,810
Gifts and other unexpended revenues				
Acquisition of building and equipment	-	5,751	-	5,751
Instruction, research, and institutional support	-	4,814	-	4,814
Undesignated	85,552	-	-	85,552
	<u>\$ 282,209</u>	<u>\$ 121,771</u>	<u>\$ 158,769</u>	<u>\$ 562,749</u>
	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds				
Long-term investment (quasi - endowment)	\$ 163,829	\$ -	\$ -	\$ 163,829
Original principal	-	-	124,598	124,598
Unspent income and appreciation				
Scholarship support	-	47,538	-	47,538
Faculty support	-	11,941	-	11,941
Program support	-	24,266	-	24,266
Total endowment funds	<u>163,829</u>	<u>83,745</u>	<u>124,598</u>	<u>372,172</u>
Split-interest agreements and perpetual trusts	-	7,460	23,393	30,853
Student loan funds	12,681	-	3,554	16,235
Gifts and other unexpended revenues				
Acquisition of building and equipment	-	5,231	-	5,231
Instruction, research, and institutional support	-	5,968	-	5,968
Undesignated	79,768	-	-	79,768
	<u>\$ 256,278</u>	<u>\$ 102,404</u>	<u>\$ 151,545</u>	<u>\$ 510,227</u>

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12. Expenses by Functional Category

Operation and maintenance of plant expenses have been allocated to the various functions on the consolidated statements of activities. Methods in allocating these expenses include actual expenses incurred and percentage of square footage for each functional area.

External relations expenditures include approximately \$6,048,000 and \$5,863,000 of fundraising expenses for the years ended June 30, 2014 and 2013, respectively.

13. Reclassification of Prior Year Amounts

The University reclassified certain items in the consolidated statement of activities to further align the presentation with peer institutions and the way in which management reviews such activities. Reclassification of prior year amounts to conform to the current year presentation include the allocation of operation and maintenance of plant expenses to the various functions on the consolidated statement of activities and reclassification of tuition support. There is no impact on the change in net assets of these reclassifications. Amounts reclassified are as follows (in thousands):

	2013
	Increase (Decrease)
	in Line Item
Operating revenues	
Unrestricted student aid	\$ (3,613)
Externally funded student aid	<u>(2,172)</u>
Total student aid	<u>(5,785)</u>
Net tuition and fees	<u>5,785</u>
Contract and exchange transactions	<u>(2,172)</u>
Total revenues	<u>3,613</u>
Total revenues and other support	<u>3,613</u>
Operating expenses	
Instruction and department research	15,032
Sponsored research and other sponsored programs	1,494
External relations	414
Institution and academic support	(1,933)
Student services	7,654
Operation and maintenance of plant	(28,993)
Auxiliary enterprises	<u>9,945</u>
Total operating expenses	<u>3,613</u>
Change in net assets from operating activities	<u>-</u>
Total change in net assets	<u>\$ -</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.

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Prescott Holdings has \$6,823,000 in outstanding mortgage and construction notes payable with TD Banknorth, N.A. for which the University entered into limited guarantees. As of June 30, 2014, the amount guaranteed by the University is approximately \$853,000.

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, 2014 and 2013, funds held for others in the consolidated statements of financial position include Alumni Association assets of \$2,774,000 and \$2,450,000, respectively.

15. Commitments and Contingencies

Construction Contracts

For the year ended June 30, 2013, the University had contracted for the construction of a 250-bed-apartment-style residence hall. The total project costs were estimated to be approximately \$39,000,000. As of June 30, 2014, the project has been completed and commitments have been paid in full.

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, 2014, the University had unfunded commitments of approximately \$28,959,000 that can be called through fiscal year 2021. These commitments will be funded from the University’s existing cash and investments.

Operating Leases

The University is obligated under noncancelable operating leases for office space and storage facilities. The future minimum rental commitments for the next five years under these agreements as of June 30, 2014, are approximately as follows (in thousands):

2015	\$	1,516
2016		1,482
2017		1,454
2018		1,170
2019		947

Rental expense was approximately \$1,492,000 and \$1,472,000 for the years ended June 30, 2014 and 2013, respectively.

Guarantees

In addition to the amounts guaranteed by the University as disclosed in Note 13, the University has guaranteed commercial loans with an original principal amount of \$1,880,000 to seven fraternities. These loans are collateralized by real property owned by the fraternities.

Uncertain Tax Positions

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

Sponsored Research

The University’s sponsored research program and indirect cost recovery are subject to audit by the respective sponsoring federal agency as provided for in federally sponsored research regulations. Management believes that any such audit will not have a material adverse effect, individually or in the

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aggregate, upon the University's consolidated statements of financial position, or the related consolidated statements of activities, or cash flows.

Self-insured Medical Claims

Effective January 1, 2014, the University is self-insured for medical claims and is a member of a captive insurer providing stop-loss insurance to cover plan expenses in excess of certain limits. Management believes insurance claims that have occurred as of June 30, 2014 but not yet reported or paid have been adequately reserved.

Other Commitments and Contingencies

In May 2009, the University entered into a payment in lieu of taxes ("PILOT") agreement with the City of Worcester. The 25 year agreement provides for the University to pay approximately \$450,000 annually in voluntary payments, increasing 2.5% annually. The agreement calls for the City of Worcester to use these amounts to support the operations of the Worcester Public Library and for the implementation of the master plan to renovate Institute Park. In April 2014, the PILOT agreement was amended to increase the voluntary payment by an additional \$130,000 annually, also increasing 2.5% annually,

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

16. Subsequent Events

Management has evaluated subsequent events for the period after June 30, 2014 through November 10, 2014, 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.