Worcester Polytechnic Institute

Consolidated Financial Statements
June 30, 2016 and 2015

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Report of Independent Auditors

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, 2016 and 2015, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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. [1] 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 as of June 30, 2016 and 2015, 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

Hartford, Connecticut
November 4, 2016

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Worcester Polytechnic Institute
Consolidated Statements of Financial Position
June 30, 2016 and 2015 (in thousands)

	2016	2015
Assets		
Cash and cash equivalents	$ 40,063	$ 23,722
Cash designated for construction	44,068	-
Accounts receivable, net	7,369	10,120
Contributions receivable, net	13,857	8,767
Funds held under bond agreements	1,871	3,794
Prepaid expenses and other assets	9,708	9,349
Student loans receivable, net	21,284	22,116
Beneficial interest in trusts	18,293	26,483
Investments	490,388	463,447
Land, buildings and equipment, net	308,919	305,038
Total assets	$ 955,820	$ 872,836
Liabilities		
Accounts payable and accrued liabilities	26,977	24,829
Deposits and deferred revenue	8,161	10,351
Liabilities under split-interest agreements	8,748	9,774
Funds held for others	3,841	3,881
Asset retirement obligations	2,327	2,374
Refundable government loan funds	9,261	9,015
Bonds and notes payable	286,317	236,131
Interest rate agreements	12,031	9,599
Total liabilities	357,663	305,954
Net assets		
Unrestricted	271,993	276,043
Temporarily restricted	113,487	118,775
Permanently restricted	212,677	172,064
Total net assets	598,157	566,882
Total liabilities and net assets	$ 955,820	$ 872,836

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

Worcester Polytechnic Institute
Consolidated Statement of Activities
Year Ended June 30, 2016 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	$ 231,223	$ -	$ -	$ 231,223
Less: Student aid	76,236	-	-	76,236
Net tuition and fees	154,987	-	-	154,987
Other educational activities	2,459	-	-	2,459
Contributions	5,828	1,282	-	7,110
Contract and exchange transactions	33,868	-	-	33,868
Investment income on endowment and similar funds	2,268	12	76	2,356
Net realized gains on endowment used for operations	7,913	8,621	-	16,534
Other investment income	2,204	630	9	2,843
Sales and services of auxiliary enterprises	27,857	-	-	27,857
Other	3,141	-	-	3,141
Total revenues	240,525	10,545	85	251,155
Net assets released from restriction	12,343	(12,343)	-	-
Total revenues and other support	252,868	(1,798)	85	251,155
Operating expenses				
Instruction and department research	106,640	-	-	106,640
Sponsored research and other sponsored programs	29,646	-	-	29,646
External relations	10,737	-	-	10,737
Institution and academic support	44,094	-	-	44,094
Student services	22,769	-	-	22,769
Auxiliary enterprises	26,571	-	-	26,571
Total operating expenses	240,457	-	-	240,457
Change in net assets from operating activities	12,411	(1,798)	85	10,698
Nonoperating				
Net realized and unrealized losses on investments	(1,203)	(3,417)	-	(4,620)
Net realized gains on endowment used for operations	(7,913)	(8,621)	-	(16,534)
Increase in provision for underwater funds	(1,362)	1,362	-	-
Net unrealized losses on beneficial interest in trusts	-	(462)	(954)	(1,416)
Change in value of split-interest agreements	(152)	74	7	(71)
Contributions	-	7,574	41,475	49,049
Net realized and unrealized losses on interest rate agreements	(4,195)	-	-	(4,195)
Loss on extinguishment of debt	(1,636)	-	-	(1,636)
Change in net assets from nonoperating activities	(16,461)	(3,490)	40,528	20,577
Total change in net assets	(4,050)	(5,288)	40,613	31,275
Net assets, beginning of year	276,043	118,775	172,064	566,882
Net assets, end of year	$ 271,993	$ 113,487	$ 212,677	$ 598,157

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

Worcester Polytechnic Institute
Consolidated Statement of Activities
Year Ended June 30, 2015 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	$ 217,181	$ -	$ -	$ 217,181
Less: Student aid	73,046	-	-	73,046
Net tuition and fees	144,135	-	-	144,135
Other educational activities	2,594	-	-	2,594
Contributions	3,712	7,204	-	10,916
Contract and exchange transactions	34,247	-	-	34,247
Investment income on endowment and similar funds	1,967	26	74	2,067
Net realized gains on endowment used for operations	7,453	7,717	-	15,170
Other investment income	1,958	523	71	2,552
Sales and services of auxiliary enterprises	27,212	-	-	27,212
Other	2,999	-	(146)	2,853
Total revenues	226,277	15,470	(1)	241,746
Net assets released from restriction	12,951	(12,951)	-	-
Total revenues and other support	239,228	2,519	(1)	241,746
Operating expenses				
Instruction and department research	101,335	-	-	101,335
Sponsored research and other sponsored programs	27,957	-	-	27,957
External relations	9,735	-	-	9,735
Institution and academic support	45,661	-	-	45,661
Student services	22,980	-	-	22,980
Auxiliary enterprises	26,821	-	-	26,821
Total operating expenses	234,489	-	-	234,489
Change in net assets from operating activities	4,739	2,519	(1)	7,257
Nonoperating				
Net realized and unrealized gains and losses on investments	1,886	(581)	-	1,305
Net realized gains on endowment used for operations	(7,453)	(7,717)	-	(15,170)
Increase in provision for underwater funds	(264)	264	-	-
Net unrealized gains on beneficial interest in trusts	-	203	1,033	1,236
Change in value of split-interest agreements	(466)	220	10	(236)
Contributions	-	2,096	12,253	14,349
Net realized and unrealized losses on interest rate agreements	(2,458)	-	-	(2,458)
Change in net assets from nonoperating activities	(8,755)	(5,515)	13,296	(974)
Total change in net assets	(4,016)	(2,996)	13,295	6,283
Net assets, beginning of year	280,059	121,771	158,769	560,599
Net assets, end of year	$ 276,043	$ 118,775	$ 172,064	$ 566,882

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

Worcester Polytechnic Institute
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015 (in thousands)

	2016	2015
Cash flows from operating activities		
Change in net assets	$ 31,275	$ 6,283
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	20,687	20,876
Provision for uncollectible receivables	325	527
Loss on disposals of land, buildings, and equipment	262	332
Net realized and unrealized losses (gains) on investments	6,036	(2,550)
Net unrealized losses on interest rate agreements	4,195	2,458
Loss on extinguishment of debt	1,636	-
Contributions other than cash	(31,461)	(3,032)
Contributions restricted for long-term investment	(21,062)	(13,401)
Proceeds from sale of donated securities	1,375	1,334
Changes in assets and liabilities:		
Accounts receivable	2,593	(2,824)
Contributions receivable	(5,588)	(3,323)
Prepaid expenses and other assets	(524)	(989)
Accounts payable and accrued liabilities	996	1,863
Deposits and deferred revenue	(551)	434
Split-interest agreements	(1,026)	568
Funds held for others	141	226
Asset retirement obligations	(164)	98
Refundable government loan funds	246	73
Total adjustments	(21,884)	2,670
Net cash provided by operating activities	9,391	8,953
Cash flows from investing activities		
Proceeds from sales and maturities of investments	49,835	66,654
Purchase of investments	(47,046)	(65,932)
Investment of proceeds from long-term debt	(54,767)	(2,721)
Purchase of land, buildings, and equipment	(19,074)	(16,059)
Use of funds held under bond agreements	9,111	2,597
Disbursement of loans to students	(3,246)	(3,313)
Repayment of loans from students	4,185	4,223
Net cash used in investing activities	(61,002)	(14,551)
Cash flows from financing activities		
Contributions restricted for long-term investment	21,473	14,446
Deferred financing costs	(855)	88
Realized loss on interest rate agreements	(1,763)	(1,927)
Proceeds from long-term debt	107,375	3,775
Repayment of long-term debt	(58,278)	(5,161)
Net cash provided by financing activities	67,952	11,221
Net increase in cash and cash equivalents	16,341	5,623
Cash and cash equivalents at beginning of year	23,722	18,099
Cash and cash equivalents at end of year	$ 40,063	$ 23,722
Supplemental disclosures of cash flow information		
Interest paid	$ 8,660	$ 8,624
Contributed securities	$ 28,754	$ 2,912
Gifts-in-kind	$ 2,252	$ 120
Purchases of buildings and equipment included in accounts payable	$ 4,326	$ 3,278
Leased equipment	$ 2,394	$ 783

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

1. Organization

Worcester Polytechnic Institute (the "University"), founded in 1865, is the nation's third oldest private technological university. Approximately 6,100 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 described below. Intercompany accounts and transactions have been eliminated.

Washburn Park, Inc. ("Washburn")

Washburn is a not-for-profit corporation that owns and operates a parking garage and a life sciences and bioengineering facility located in the Gateway Park area of Worcester. Washburn also owns land used for the construction of Faraday Hall, a residence hall completed in August 2014.

Gateway Park, LLC ("Gateway")

Gateway owns land located in the Gateway Park area of Worcester.

Lancaster Island, LLC ("Lancaster")

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

Classifications

Revenues are reported as increases in 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 agreements.

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 $5,986,000 and $5,606,000 of fundraising expenses for the years ended June 30, 2016 and 2015, respectively.

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

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

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

Cash Designated for Construction
The University has classified proceeds received from the issuance of taxable bonds as designated for construction. These proceeds will be used to finance various capital projects and associated interest during the construction phase.

Contributions
Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Promises to give that are scheduled to be received after the fiscal year-end are shown as increases in 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 1.4%. Amortization of the discount is recorded as additional contribution revenue in the applicable net asset class.

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

The University reports contributions of land, buildings, or equipment as 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, 2016 and 2015, deferred financing costs, net totaled approximately $2,490,000 and $2,705,000 respectively. Amortization expense for the years ended June 30, 2016 and 2015 was approximately $60,000 and $92,000, respectively. During 2016, approximately $1,011,000 of such costs were written off in connection with the extinguishment of certain University debt. The estimated amortization expense for deferred financing costs for the next five years is approximately $81,000 annually.

Beneficial Interest in Trusts
The University is the beneficiary of certain perpetual trusts and charitable remainder trusts held and administered by third-party trustees. Under the terms of these agreements, the University has the irrevocable right to its share of the income earned on the trust assets. The use of the income may be restricted by the donor. The estimated fair value of trust assets are recognized as assets and contribution revenue when reported to the University.

Investments
Investments are reported at fair value. Fair value is market-based measurement based on assumptions used to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As a basis for considering assumptions, the University prioritizes inputs using three levels, based on the markets in which the investments trade and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on quoted prices for identical investments in active markets. Market price data is generally obtained from relevant exchange or dealer markets.

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

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

Fair value is best determined based on quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the investment.

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

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

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

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	10 to 40 years
Equipment	3 to 10 years

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

Included in deposits and deferred revenue is the realized gain on an interest rate-lock contract on borrowings in 2007. During 2016, approximately $1,619,000 of the gain was recognized as income in connection with the extinguishment of certain University debt. The remaining gain is being amortized over the life of the related bonds. For the years ended June 30, 2016 and 2015, the net deferred gain totaled $608,000 and $2,248,000, respectively.

Split-Interest Agreements
The University's split-interest agreements with donors are included in investments and consist of charitable gift annuities, charitable lead trusts, charitable remainder trusts, and pooled income arrangements. Assets are invested by the University or third-party trustees and payments are made to beneficiaries in accordance with the respective agreements. At the end of each agreement's term, amounts are distributed to the University or other beneficiaries. Annual distributions to beneficiaries may be for a specified dollar amount or a percentage of the trust's fair value. Upon receipt, gifts requiring the University or trustee to pay donors a specified periodic amount are recorded at fair value with corresponding estimated liabilities for future amounts payable to other beneficiaries, where applicable. The liabilities associated with these gifts are adjusted during the term of these gift instruments. The University is aware of certain split-interest arrangements in which it has been named as beneficiary and has adopted a policy that until such amounts are estimable and probable, such amounts are not recognized in the financial statements. The present value of payments to beneficiaries under split-interest arrangements is calculated using discount rates in effect at the date of the gift; these rates range from approximately 1.2% to 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.

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

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

Implementation of Accounting Standards
In May 2015, the Financial Accounting Standards Board ("FASB"), issued Accounting Standards Update ("ASU") 2015-07 "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent.)" This guidance removes the requirement to categorize within the fair value hierarchy those investments that use net asset value (NAV) as a practical expedient for valuation purposes. The University adopted ASU 2015-07 in fiscal year 2015.

In January 2016, the FASB issued ASU 2016-01 "Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." This guidance removes the requirement to disclose the fair value of financial instruments carried at amortized cost. The University has elected to early adopt ASU 2016-01 and has removed the fair value disclosure of its debt from Footnote 9, Bonds and Notes Payable.

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

3. Accounts Receivable

Accounts receivable consist of the following at June 30, 2016 and 2015 (in thousands):

	2016	2015
Sponsored research	$ 4,696	$ 6,857
Student receivables	2,030	3,249
Other receivables	1,229	1,150
	7,955	11,256
Less: Allowance for doubtful accounts	(586)	(1,136)
	$ 7,369	$ 10,120

4. Contributions Receivable

Unconditional promises are expected to be received in the following periods at June 30, 2016 and 2015 (in thousands):

	2016	2015
In one year or less	$ 9,792	$ 6,206
Between one and five years	4,807	3,355
	14,599	9,561
Less:		
Discount to present value	(217)	(164)
Allowance for doubtful contributions	(525)	(630)
	$ 13,857	$ 8,767

As of June 30, 2016 and 2015, the University has approximately $43,896,000 and $80,731,000, respectively, of conditional promises to give that are not recognized as assets in the accompanying consolidated statements of financial position.

5. Student Loans Receivable

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2016 and 2015, student loans represented 2.2% and 2.5% of total assets, respectively.

Student loans receivable consist of the following at June 30, 2016 and 2015 (in thousands):

	2016			2015		
	Federal Government Programs	Institutional Programs	Total	Federal Government Programs	Institutional Programs	Total
Student loans receivable	$ 11,489	$ 10,238	$ 21,727	$ 11,889	$ 10,919	$ 22,808
Less allowance for doubtful accounts:						
Beginning of year	(434)	(258)	(692)	(656)	(305)	(961)
Decreases (increases)	284	(170)	114	222	(47)	175
Write-offs	-	135	135	-	94	94
End of year	(150)	(293)	(443)	(434)	(258)	(692)
Student loans receivable, net	$ 11,339	$ 9,945	$ 21,284	$ 11,455	$ 10,661	$ 22,116

The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government and their share of student loan activity of $9,261,000 and $9,015,000 at June 30, 2016 and 2015 are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan.

The following amounts were past due under student loan programs at June 30, 2016 and 2015 (in thousands):

	1-60 days	60-90 days	90+ days	Total past due
June 30, 2016	$ 17	$ 5	$ 1,036	$ 1,058
June 30, 2015	26	6	1,051	1,083

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

6. Beneficial Interest in Trusts

Beneficial interest in trusts are carried at fair value using discounted present value and other similar methodologies. The following table summarizes the changes in these trusts during the years ended June 30, 2016 and 2015 (in thousands):

	2016	2015
Fair value, beginning of year	$ 26,483	$ 24,500
Net unrealized (losses) and gains	(1,416)	1,236
Contributions	754	1,464
Distributions, net	(7,528)	(717)
Fair value, end of year	$ 18,293	$ 26,483

7. Investments

Investments at June 30, 2016 are as follows (comparative totals are included for 2015) (in thousands):

	2016			2015
	Endowment and Similar Funds	Split-Interest Agreements	Total	Total
Cash and cash equivalents	$ 1,382	$ 160	$ 1,542	$ 3,830
Equity securities	142,834	11,706	154,540	129,126
Fixed income securities	71,714	5,106	76,820	68,732
Commodities	12,628	-	12,628	10,613
Alternative investments				
Equity funds	132,413	-	132,413	145,297
Fixed income funds	42,387	-	42,387	47,274
Private equity funds	29,437	-	29,437	28,224
Real estate	40,621	-	40,621	30,351
Total investments	$ 473,416	$ 16,972	$ 490,388	$ 463,447

As describe in Note 2, investments are recorded at fair value. The following tables summarize the fair values of the University's investments at June 30, 2016 and 2015 (in thousands):

	2016				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV Practical Expedient	Total
Cash and cash equivalents	$ 1,542	-	-	-	$ 1,542
Equity securities	154,540	-	-	-	154,540
Fixed income securities	76,820	-	-	-	76,820
Commodities	12,628	-	-	-	12,628
Alternative investments					
Equity funds	-	-	-	132,413	132,413
Fixed income funds	-	-	-	42,387	42,387
Private equity funds	-	-	1,002	28,435	29,437
Real estate	-	-	26,975	13,646	40,621
Total investments	$ 245,530	$ -	$ 27,977	$ 216,881	$ 490,388

	2015				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV Practical Expedient	Total
Cash and cash equivalents	$ 3,830	-	-	-	$ 3,830
Equity securities	129,126	-	-	-	129,126
Fixed income securities	68,732	-	-	-	68,732
Commodities	10,613	-	-	-	10,613
Alternative investments					
Equity funds	-	-	-	145,297	145,297
Fixed income funds	-	-	-	47,274	47,274
Private equity funds	-	-	1,002	27,222	28,224
Real estate	-	-	19,400	10,951	30,351
Total investments	$ 212,301	$ -	$ 20,402	$ 230,744	$ 463,447

Fair values of equity, fixed income and commodity securities are generally based on published market values. The University invests in hedge funds, private equity, and real estate investments through various limited partnerships and similar vehicles. Hedge funds utilize a variety of investment strategies incorporating marketable securities and, in some cases, derivative instruments, all of which are reported at estimated fair value by the fund managers. Private equity funds consist of long-term private investments and have been valued based on estimates provided by the general partners of the investment vehicles. Investments in limited partnerships and limited liability companies (generally referred to as “limited partnerships”) for which readily ascertainable market values are not available are reported at estimated fair value as determined by Management or at the investment net asset value (“NAV”) as a practical expedient. Investments in limited partnerships are generally valued based upon the most recent NAV or capital account information available from the general partner of the investment limited partnership, taking into consideration, where applicable, other information determined to be a reliable indicator of fair value. These factors include rights and obligations, restrictions or illiquidity on such interest, potential clawbacks, and the fair value of the limited partnership’s investment portfolio or other assets and liabilities. The values assigned to investments in limited partnership are based upon available information and do not necessarily represent amounts which might ultimately be realized. Because of the inherent uncertainty of valuation, those estimated fair values may differ significantly from the values that would have been realized had a ready market for the investments existed and those differences could be material.

Real estate consists mainly of direct real estate holdings and investments in privately held entities. The fair values of the real estate investments in privately held entities have been valued based on the NAV provided by the fund managers of these investment vehicles. The fair values of direct real estate holdings have been prepared giving consideration to periodic independent external appraisals, as well as the income, cost and sales comparison approaches of estimating property value. The income approach estimates an income stream for a property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. A second technique is the direct capitalization analysis. Direct capitalization involves capitalizing a property's first year, or stabilized net operating income into a value estimate. Yield rates and growth assumptions utilized in both approaches are derived from market transactions as well as other financial and industry data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. Generally, this approach provides a check on the value derived using the income approach. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for dissimilarities which typically provide a range of value. The income capitalization and sales comparison approach were used to value the direct real estate investments. The capitalization rates, sales price per acre of comparable properties, and the comparability adjustments are considered to be significant unobservable inputs to these valuations. These rates and adjustments vary and are based on the location, type and nature of each property, and current and anticipated market conditions. Appraisals for any direct real estate holding were prepared by independent external appraisers. Management determines the frequency of appraisals based on the local real estate market and the use of the properties. Management believes the appraisals approximate fair value for real estate holdings at June 30, 2016 and 2015.

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, 2016 and 2015 not valued at NAV (in thousands):

Real estate investment	2016	2015	Valuation Technique	Unobservable Input	Range
Commercial real estate, Worcester, MA	$ 7,400	$ 7,400	Income capitalization	Capitalization Rate	5.39% - 9.56%
Commercial real estate, Florida	6,600	-	Income capitalization	Capitalization Rate	8.0% - 14.0%
Leased land, Worcester, MA	5,250	4,730	Income capitalization	Capitalization Rate	3.96% - 6.1%
Parking garage, Worcester, MA	3,475	3,475	Income capitalization	Capitalization Rate	8.25%
Undeveloped land, Worcester, MA	1,740	1,740	Sales comparison	Price per acre	$0.7M - $1.4M
				Comparability adjustments	-20% - +30%
Undeveloped land, Worcester, MA	1,600	1,600	Sales comparison	Price per acre	$0.7M - $1.4M
				Comparability adjustments	-5% - +45%
Residential real estate, US	910	455	Sales comparison	Price per square foot	$830K - $970K
	$ 26,975	$ 19,400			

Alternative investments consist of non-controlling, limited marketability stock holdings and investments in limited partnerships. The fair values of investments in limited partnerships have been valued based on the NAV provided by the fund managers of these investment vehicles.

The following tables summarize key provisions for the University's alternative investments valued at NAV as of June 30, 2016 and 2015 (in thousands):

2016

Asset Class	Strategy	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Absolute Return - Market Neutral	Global equity and fixed income funds in market neutral categories	$105,166	No limit	$ -	Redemption terms range from quarterly with 60 to 90 days notice to annually with 45 to 90 days notice.	Lock-up provisions range from none to redemptions limited to 1/3 of the value annually.
Private Equity	Venture capital and buyout in the US and global markets	28,435	1 to 14 years	43,049	Private equity structure with no ability to redeem.	Not redeemable
Directional Hedge	Global long/short equity funds	69,634	No limit	-	Redemption terms are quarterly with 60 days notice.	No lock-up provisions
Real Estate	US real estate	13,646	1 to 9 years	22,227	Private equity structure with no ability to redeem.	Not redeemable
Total		$ 216,881		$ 65,276		

2015

Asset Class	Strategy	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Absolute Return - Market Neutral	Global equity and fixed income funds in market neutral categories	$122,807	No limit	$ -	Redemption terms range from quarterly with 60 to 90 days notice to annually with 45 to 90 days notice.	Lock-up provisions range from none to redemptions limited to 1/3 of the value annually.
Private Equity	Venture capital and buyout in the US and global markets	27,222	1 to 10 years	12,729	Private equity structure with no ability to redeem.	Not redeemable
Directional Hedge	Global long/short equity funds	69,764	No limit	-	Redemption terms are quarterly with 60 days notice.	No lock-up provisions
Real Estate	US real estate	10,951	2 to 9 years	19,364	Private equity structure with no ability to redeem.	Not redeemable
Total		$ 230,744		$ 32,093		

The following table summarizes the changes in the Level 3 investments carried at fair value during the years ended June 30, 2016 and 2015 (in thousands):

	Equity Funds	Fixed Income Funds	Private Equity Funds	Real Estate	Total
Fair value, June 30, 2014	$ 57,515	$ 40,121	$ 28,968	$ 28,524	$ 155,128
Transfers out	(57,515)	(40,121)	(27,798)	(8,960)	(134,394)
Net realized and unrealized losses and gains	-	-	(168)	131	(37)
Purchases	-	-	-	-	-
Sales and settlements	-	-	-	(295)	(295)
Fair value, June 30, 2015	-	-	1,002	19,400	20,402
Net realized and unrealized gains	-	-	-	520	520
Purchases	-	-	-	7,055	7,055
Sales and settlements	-	-	-	-	-
Fair value, June 30, 2016	$ -	$ -	$ 1,002	$ 26,975	$ 27,977

In the consolidated statements of activities for the years ended June 30, 2016 and 2015, net realized and unrealized gains and losses on Level 3 investments are included in nonoperating net realized and unrealized gains and losses on investments. Transfers out of Level 3 in 2015 consist of investments reclassified from Level 3 to Investments at NAV due to the use of the practical expedient.

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.

The University has adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") statute. UPMIFA provides guidance for investment management; enumerates guidelines in prudent investing; and, eliminates the concept of "historic dollar value" for donor-restricted endowments. Accordingly, the University has not limited appropriation of underwater funds to current yield.

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

Asset Allocation Policy	Target %
Global equity	37
Private equity	8
Flexible capital	25
Fixed income	12
Real assets	18

The University's investment return for the year ended June 30, 2016, with comparative totals for 2015, is summarized as follows (in thousands):

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income on endowment and similar funds	$ 2,268	$ 12	$ 76	$ 2,356
Net realized and unrealized losses on investments	(1,203)	(3,417)	-	(4,620)
Return on endowment and similar funds	1,065	(3,405)	76	(2,264)
Other investment income	2,204	630	9	2,843
Total return on investments	3,269	(2,775)	85	579
Investment return designated for current unrestricted operations	(12,385)	(9,263)	-	(21,648)
Investment return net of return utilized	$ (9,116)	$ (12,038)	$ 85	$ (21,069)

	2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Investment income on endowment and similar funds	$ 1,967	$ 26	$ 74	$ 2,067
Net realized and unrealized gains (losses) on investments	1,886	(581)	-	1,305
Return on endowment and similar funds	3,853	(555)	74	3,372
Other investment income	1,958	523	71	2,552
Total return on investments	5,811	(32)	145	5,924
Investment return designated for current unrestricted operations	(11,378)	(8,266)	-	(19,644)
Investment return net of return utilized	$ (5,567)	$ (8,298)	$ 145	$ (13,720)

Investment income is net of investment management fees of approximately $601,000 and $484,000 for the years ended June 30, 2016 and 2015, 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 4.9% of its endowment and similar funds' average unit fair value for the previous twelve quarters, one year removed, for the years ended June 30, 2016 and 2015.

The spending rule distributions for fiscal years 2016 and 2015, respectively, were $0.284 and $0.276 per time weighted unit, comprised of, respectively, $0.058 and $0.056 of income and $0.226 and $0.220 of distributions from current and accumulated net gains. At June 30, 2016 there were a total of 73,299,580 units in the pooled endowment and similar funds, each having a fair value of $5.868. Of the total units, 39,964,515 were owned by endowment funds and 33,335,065 were owned by internally designated funds. At June 30, 2015 there were a total of 69,226,492 units in the pooled endowment and similar funds, each having a fair value of $6.158. Of the total units, 36,835,055 were owned by endowment funds and 32,391,437 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, 2016 and in each of the prior four years is as follows:

	Income Per Time-Weighted Unit	**Fair Value Per Unit**
2016	$ 0.058	$ 5.868
2015	0.056	6.158
2014	0.058	6.313
2013	0.058	5.753
2012	0.050	5.524

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 $2,359,000 and $997,000 at June 30, 2016 and 2015, 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.

Endowment and Similar Funds

The endowment and similar funds' net asset composition as of June 30, 2016 and 2015 and the changes for the years then ended are as follows (in thousands):

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 89,240	$ 190,438	$ 279,678
Quasi-endowment	173,495	-	-	173,495
Total	$ 173,495	$ 89,240	$ 190,438	$ 453,173
Balance, June 30, 2015	$ 178,527	$ 99,116	$ 141,666	$ 419,309
Investment return:				
Investment income	4,137	12	-	4,149
Net depreciation realized and unrealized	(1,173)	(3,088)	-	(4,261)
Total investment return	2,964	(3,076)	-	(112)
Contributions	5,524	459	48,772	54,755
Appropriated for expenditure	(12,158)	(8,621)	-	(20,779)
Increase in provision for underwater funds	(1,362)	1,362	-	-
Balance, June 30, 2016	$ 173,495	$ 89,240	$ 190,438	$ 453,173

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 99,116	$ 141,666	$ 240,782
Quasi-endowment	178,527	-	-	178,527
Total	$ 178,527	$ 99,116	$ 141,666	$ 419,309
Balance, June 30, 2014	$ 183,556	$ 102,955	$ 129,696	$ 416,207
Investment return:				
Investment income	3,797	26	-	3,823
Net appreciation (depreciation) realized and unrealized	1,808	(420)	-	1,388
Total investment return	5,605	(394)	-	5,211
Contributions	932	4,034	11,970	16,936
Appropriated for expenditure	(11,302)	(7,743)	-	(19,045)
Increase in provision for underwater funds	(264)	264	-	-
Balance, June 30, 2015	$ 178,527	$ 99,116	$ 141,666	$ 419,309

Split-Interest Agreements

Investments include the following split-interest agreements at June 30, 2016 and 2015 (in thousands):

	2016	2015
Charitable gift annuities	$ 8,513	$ 10,191
Charitable remainder trusts	6,926	8,018
Pooled income funds	1,533	1,667
	$ 16,972	$ 19,876

8. Land, Buildings and Equipment

Land, buildings and equipment, net, consist of the following at June 30, 2016 and 2015 (in thousands):

	2016	2015
Land and land improvements	$ 25,849	$ 25,349
Buildings and improvements	420,207	407,869
Equipment	71,121	61,529
	517,177	494,747
Less: Accumulated depreciation	(217,624)	(197,676)
	299,553	297,071
Construction-in-progress	9,366	7,967
	$ 308,919	$ 305,038

Depreciation expense charged to operations was approximately $20,568,000 and $20,834,000 for the years ended June 30, 2016 and 2015, respectively. Net interest cost capitalized was approximately $270,000 and $121,000 for the years ended June 30, 2016 and 2015, respectively.

9. Bonds and Notes Payable

Bonds and notes payable consist of the following (in thousands) at June 30, 2016 and 2015:

Purpose and Definition	Maturity Date	Interest Rate %	Original Issue	Amount Due Within One Year	Balance, June 30, 2016	Balance, June 30, 2015
Bonds payable						
Housing and Urban Development 1969 Series C (1)	4/1/2019	3.0	$ 1,160	40	$ 127	$ 167
Massachusetts Development Finance Agency ("MDFA") 2007 Series (2)	9/1/2047	4.0-5.0	81,915	2,150	20,606	75,768
MDFA 2008 Series A & B (3)	9/1/2035	Variable	54,815	1,910	46,415	48,315
MDFA 2010 Series (4)	9/1/2045	4.5-5.0	56,000	-	56,059	56,062
MDFA 2012 Series (5)	9/1/2050	4.0-5.0	42,540	-	43,284	43,306
MDFA 2014 Series (3)	9/1/2029	3.10	2,782	169	4,010	2,709
MDFA 2016 Series (6)	9/1/2052	3.0-5.0	49,030	-	49,030	0
Worcester Polytechnic Institute 2016 Series (3)	9/1/2056	4.338	56,905	-	56,905	0
Wells Fargo (7)	7/1/2016	-	993	-	-	993
Uncollateralized notes						
TD Bank	7/1/2023	Variable	7,122	356	6,113	6,469
Worcester Business Development Corp.	9/1/2014	5.0	1,766	-	-	-
Capital lease obligations	Various	Various		1,147	3,768	2,342
Total bonds and notes payable				$ 5,772	$ 286,317	$ 236,131

(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, 2016 and 2015 include a premium of approximately $476,000 and $1,758,000, 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, 2016 and 2015 include a premium of approximately $59,000 and $62,000, respectively.

(5) The bonds represent a general obligation of the University. The balances at June 30, 2016 and 2015 include a premium of approximately $744,000 and $766,000, respectively.

(6) The bonds represent a general obligation of the University. The balance at June 30, 2016 includes a premium of approximately $5,995,000.

(7) Collateralized by certain network infrastructure equipment.

In compliance with the University's various bond indentures, funds held under bond agreements at June 30, 2016 and 2015 include investments of approximately $1,871,000 and $3,794,000, respectively, held for construction and debt service reserves.

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

2017	$ 5,772
2018	4,991
2019	3,782
2020	3,724
2021	3,553
Thereafter	257,220
Total cash payments	$ 279,042
Premium	7,275
	$ 286,317

In June 2016, the University borrowed $49,030,000 in the form of Massachusetts Development Finance Agency ("MDFA") Revenue Bonds Series 2016 (tax-exempt) (the "MDFA 2016 Bonds") and $56,905,000 in University taxable bonds (the "WPI 2016 Bonds.") The proceeds from these bonds were used to advance refund a portion of the University's outstanding MDFA Series 2007 bonds and to pay certain costs of issuance. The remaining proceeds will be used to finance the development, design, and construction and equipping of the Foisie Innovation Studio and an approximate 140-bed student residence, and various other capital renovations, deferred maintenance, and facilities improvements. Sources and uses of the bonds proceeds are as follows (in thousands):

	MDFA 2016 Bonds (Tax-exempt)	WPI 2016 Bonds (Taxable)	Total
Sources:			
Bond proceeds:			
Par amount	$ 43,035	$ 56,905	$ 99,940
Net premium	5,995	-	5,995
Total sources	$ 49,030	$ 56,905	$ 105,935
Uses:			
Advance refunding of MDFA Series 2007	$ 48,559	$ 6,872	$ 55,431
Cost of issuance	471	456	927
Project funds	-	49,577	49,577
Total uses	$ 49,030	$ 56,905	$ 105,935

The refunding resulted in a loss of approximately $1,636,000 that has been included in the accompanying consolidated statement of activities. The MDFA 2016 Bonds are fixed rate bonds payable in annual installments with principal payments ranging from $790,000 to $11,180,000 beginning September 1, 2027, and interest ranging from 3.0% to 5.0%. The final maturity is September 1, 2052. The WPI 2016 Bonds are fixed rate bonds payable in annual installments with principal payments ranging from $4,370,000 to $14,000,000 beginning September 1, 2052, with interest at 4.338%. The final maturity is September 1, 2056.

In June 2015, the University financed $993,000 with Wells Fargo Equipment Finance, Inc., to upgrade certain network infrastructure. The interest-free borrowing is collateralized by equipment and has been paid in full.

In August 2014, the University borrowed $4,622,000 in the form of MDFA Revenue Bond Series 2014 private placement “draw-down bonds” (the “2014 Bonds”) to finance renovations, repairs and improvements to existing facilities. The “draw-down bonds” comprise three term bonds in the initial par amounts of $2,782,000 (Term Bond A), $1,440,000 (Term Bond B), and $400,000 (Term Bond C) to be drawn on or before September 1, 2014, 2015, and 2016, respectively. The 2014 Bonds are payable in monthly installments of principal plus interest and mature September 1, 2029. Interest is set at the time of draw-down at either a variable rate (0.6975 of the sum of 125 basis points and LIBOR) or a fixed rate (0.6975 of the sum of 125 basis points plus the Federal Home Loan Bank Rate). As of June 30, 2016, the University borrowed $2,782,000 (Term Bond A) with interest payable at a fixed rate of 3.10% and $1,440,000 (Term Bond B) with interest payable at a fixed rate of 3.0132%. Principal payments for Term Bond A range from $8,084 to $12,228 per month beginning October 1, 2014 through August 1, 2029 with a final installment of $989,887 due September 1, 2029. Principal payments for Term Bond B range from $4,466 to $6,558 per month beginning October 1, 2015 through August 1, 2029 with a final installment of $530,892 due September 1, 2029.

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 1.956% and 1.68% at June 30, 2016, and 2015, respectively.

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

In January 2010, the University borrowed $56,000,000 in the form of MDFA Revenue Bond Series 2010 (the “2010 Bonds”). The proceeds from the issue were used to finance the construction, furnishing, and equipping of an approximately 140,000 square foot sports and recreation facility and other renovations, repairs, and improvements to campus facilities. The 2010 Bonds 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, 2016 for the 2008A and 2008B Bonds were 0.40% and 0.46%, respectively. At June 30, 2015, the rates were 0.07% and 0.12%, respectively. The interest rate swap agreements entered into as an integral part of the 2008 Bonds remain in effect to economically hedge the interest rate risks associated with the 2008 Bonds.

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, $4,642,000, $9,283,000, $9,283,000, $9,283,000 and $13,924,000.

In June 2007, the University borrowed $81,915,000 in the form of MDFA Revenue Bonds, Worcester Polytechnic Institute, Series 2007, (the “2007 Bonds”). A portion of the 2007 Bonds were defeased in June 2016. The remaining amounts outstanding of $20,606,000 are fixed rate bonds payable in semiannual installments with principal payments ranging from $290,000 to $2,150,000, and interest at 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, 2016 and 2015.

10. Interest Rate Agreements

The University has entered into several interest rate swap agreements used to economically hedge the interest rate risk associated with certain of its variable rate debt. The following summarizes the terms for each of these agreements as of June 30, 2016 and 2015 (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 ≥ 4.00% SIFMA Municipal Swap Index when LIBOR is < 4.00%	one-month LIBOR

	Series 2008 A&B			
Fair Value Liability	**Deutsche Bank AG**	**Barclays Bank PLC**	**Barclays Bank PLC**	Total, net
June 30, 2016	$ 4,091	$ 7,937	$ 3	$ 12,031
June 30, 2015	$ 3,374	$ 6,217	$ 8	$ 9,599

The net unrealized loss that was recognized for the interest rate swap agreements for the years ended June 30, 2016 and 2015 was approximately $2,433,000 and $531,000, respectively, and has been recorded in net realized and unrealized losses on interest rate agreements on the accompanying consolidated statements of activities. At June 30, 2016 and 2015, the fair value liability for interest rate swap agreements totaled $12,031,000 and $9,599,000, respectively.

The interest rate swap agreements contain provisions requiring collateral postings should the fair value liability of the University exceed certain amounts based on the University's long term credit ratings. The collateral posting provision for the agreement with Deutsche Bank AG is triggered should the fair value liability exceed $40 million and the University's long term credit rating remains at A1/A+. The collateral posting provision for the two agreements with Barclays Bank PLC is triggered should the combined fair value liability exceed $40 million and the University's long term credit rating declines to A2/A. At its current ratings level of A1/A, no amount of fair value liability will trigger a posting requirement for the Barclays Bank PLC agreements. The provisions with both counterparties provide that the liability threshold decreases if the University's long term credit ratings decline. At June 30, 2016, the University is not required to post collateral to its counterparties.

11. Retirement Plan

The University participates in a defined contribution retirement plan for substantially all of its employees. Employees may elect to invest in various accounts with the Teachers' Insurance and Annuity Association of America ("TIAA"), Fidelity Investments, or a combination of both. Contributions were approximately $8,581,000 and $8,357,000 for the years ended June 30, 2016 and 2015, respectively. Contributions are based upon a percentage of the employees' compensation.

12. Net Assets

Net assets consist of the following at June 30, 2016 and 2015 (in thousands):

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds				
Long-term investment (quasi - endowment)	$ 173,495	$ -	$ -	$ 173,495
Original principal	-	-	190,438	190,438
Unspent income and appreciation				
Scholarship support	-	53,650	-	53,650
Faculty support	-	10,554	-	10,554
Program support	-	25,036	-	25,036
Total endowment funds	173,495	89,240	190,438	453,173
Split-interest agreements and perpetual trusts	-	6,760	18,447	25,207
Student loan funds	12,321	-	3,792	16,113
Gifts and other unexpended revenues				
Acquisition of building and equipment	-	11,885	-	11,885
Instruction, research, and institutional support	-	5,602	-	5,602
Undesignated	86,177	-	-	86,177
	$ 271,993	$ 113,487	$ 212,677	$ 598,157

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds				
Long-term investment (quasi - endowment)	$ 178,527	$ -	$ -	$ 178,527
Original principal	-	-	141,666	141,666
Unspent income and appreciation				
Scholarship support	-	59,229	-	59,229
Faculty support	-	12,759	-	12,759
Program support	-	27,128	-	27,128
Total endowment funds	178,527	99,116	141,666	419,309
Split-interest agreements and perpetual trusts	-	8,157	26,690	34,847
Student loan funds	11,677	-	3,708	15,385
Gifts and other unexpended revenues				
Acquisition of building and equipment	-	6,368	-	6,368
Instruction, research, and institutional support	-	5,134	-	5,134
Undesignated	85,839	-	-	85,839
	$ 276,043	$ 118,775	$ 172,064	$ 566,882

13. 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. During the year ended June 30, 2016, property owned by Prescott Holdings was sold and there were no outstanding mortgages or construction notes payable for which the University has entered into limited guarantees.

As of June 30, 2015, Prescott Holdings had $6,530,000 in outstanding mortgage and construction notes payable with TD Bank, N.A. for which the University entered into limited guarantees totaling approximately $816,000.

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, 2016 and 2015, funds held for others in the consolidated statements of financial position include Alumni Association assets of $2,780,000 and $2,850,000, respectively.

14. Commitments and Contingencies

Construction Contracts

For the years ended June 30, 2016 and 2015, the University had contracted for various renovations and construction projects across campus totaling approximately $29,515,000 and $12,955,000, respectively.

Investments

The University is obligated under certain limited partnership agreements and other alternative investment arrangements to advance additional funding periodically up to specified levels. At June 30, 2016 and 2015, the University had unfunded commitments of approximately $65,276,000 and $56,093,000, respectively, that can be called through fiscal year 2030. 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, 2016, are approximately as follows (in thousands):

2017	$	2,006
2018		1,600
2019		1,350
2020		1,171
2021		1,095

Rental expense was approximately $2,118,000 and $2,021,000 for the years ended June 30, 2016 and 2015, respectively.

Guarantees
The University has guaranteed commercial loans with an outstanding amount of approximately $2,340,000 to eight fraternities. These loans are collateralized by real property owned by the fraternities.

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

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

Self-insured Medical Claims
The University is self-insured for medical claims and is a member of a captive insurer providing stop-loss insurance to cover plan expenses in excess of certain limits. Management believes insurance claims that have occurred as of June 30, 2016 and 2015 but not yet reported or paid have been adequately reserved.

Other Commitments and Contingencies
In May 2009, the University entered into a payment in lieu of taxes ("PILOT") agreement with the City of Worcester. The 25 year agreement provides for the University to pay approximately $450,000 annually in voluntary payments, increasing 2.5% annually. The agreement calls for the City of Worcester to use these amounts to support the operations of the Worcester Public Library and for the implementation of the master plan to renovate Institute Park. In April 2015, the PILOT agreement was amended to increase the voluntary payment by an additional $130,000 annually, also increasing 2.5% annually.

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.

15. Subsequent Events

Management has evaluated subsequent events for the period after June 30, 2016 through November 4, 2016, 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.