Worcester Polytechnic Institute

Consolidated Financial Statements
June 30, 2017 and 2016

Worcester Polytechnic Institute
Index
June 30, 2017 and 2016

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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 statement of financial position as of June 30, 2017 and 2016, 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. 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 as of June 30, 2017 and 2016, 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 3, 2017

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Worcester Polytechnic Institute
Consolidated Statements of Financial Position
June 30, 2017 and 2016 (in thousands)

	2017	2016
Assets		
Cash and cash equivalents	$ 50,278	$ 40,063
Cash designated for construction	27,028	44,068
Accounts receivable, net	6,255	7,369
Contributions receivable, net	9,455	13,857
Funds held under bond agreements	376	1,871
Prepaid expenses and other assets	7,765	7,218
Student loans receivable, net	19,672	21,284
Beneficial interest in trusts	19,146	18,293
Investments	526,713	490,388
Land, buildings and equipment, net	319,848	308,919
Total assets	$ 986,536	$ 953,330
Liabilities		
Accounts payable and accrued liabilities	23,811	26,977
Deposits and deferred revenue	7,904	8,161
Liabilities under split-interest agreements	8,679	8,748
Funds held for others	4,153	3,841
Asset retirement obligations	2,340	2,327
Refundable government loan funds	9,272	9,261
Bonds and notes payable	279,430	283,827
Interest rate agreements	8,282	12,031
Total liabilities	343,871	355,173
Net assets		
Unrestricted	297,404	271,993
Temporarily restricted	128,680	113,487
Permanently restricted	216,581	212,677
Total net assets	642,665	598,157
Total liabilities and net assets	$ 986,536	$ 953,330

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

Worcester Polytechnic Institute
Consolidated Statement of Activities
Year Ended June 30, 2017 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees	$ 242,760	$ -	$ -	$ 242,760
Less: Student aid	79,405	-	-	79,405
Net tuition and fees	163,355	-	-	163,355
Other educational activities	2,500	-	-	2,500
Contributions	4,581	5,006	-	9,587
Contract and exchange transactions	28,280	-	-	28,280
Investment income on endowment and similar funds	2,297	1,922	75	4,294
Net realized gains on endowment used for operations	8,028	11,408	-	19,436
Other investment income	2,242	685	29	2,956
Sales and services of auxiliary enterprises	28,512	-	-	28,512
Other	4,122	-	-	4,122
Total revenues	243,917	19,021	104	263,042
Net assets released from restriction	15,965	(15,965)	-	-
Total revenues and other support	259,882	3,056	104	263,042
Operating expenses				
Instruction and department research	115,302	-	-	115,302
Sponsored research and other sponsored programs	25,684	-	-	25,684
External relations	11,526	-	-	11,526
Institution and academic support	46,611	-	-	46,611
Student services	23,450	-	-	23,450
Auxiliary enterprises	27,426	-	-	27,426
Total operating expenses	249,999	-	-	249,999
Change in net assets from operating activities	9,883	3,056	104	13,043
Nonoperating				
Net realized and unrealized gains/(losses) on investments	20,018	24,632	(554)	44,096
Net realized gains on endowment used for operations	(8,028)	(11,408)	-	(19,436)
Decrease in provision for underwater funds	1,477	(1,477)	-	-
Net unrealized gains on beneficial interest in trusts	-	69	784	853
Change in value of split-interest agreements	(183)	(536)	37	(682)
Contributions	-	857	3,533	4,390
Net realized and unrealized gains on interest rate agreements	2,244	-	-	2,244
Change in net assets from nonoperating activities	15,528	12,137	3,800	31,465
Total change in net assets	25,411	15,193	3,904	44,508
Net assets, beginning of year	271,993	113,487	212,677	598,157
Net assets, end of year	$ 297,404	$ 128,680	$ 216,581	$ 642,665

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 Statements of Cash Flows
Years Ended June 30, 2017 and 2016 (in thousands)

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 44,508	$ 31,275
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	20,896	20,687
Provision for uncollectible receivables	209	325
Loss on disposals of land, buildings, and equipment	157	262
Net realized and unrealized losses (gains) on investments	(44,950)	6,036
Net unrealized losses on interest rate agreements	(2,244)	4,195
Loss on extinguishment of debt	-	1,636
Contributions other than cash	(1,762)	(31,461)
Contributions restricted for long-term investment	(4,391)	(21,062)
Proceeds from sale of donated securities	1,474	1,375
Changes in assets and liabilities:		
Accounts receivable	1,113	2,593
Contributions receivable	4,393	(5,588)
Prepaid expenses and other assets	(470)	(524)
Accounts payable and accrued liabilities	(1,356)	996
Deposits and deferred revenue	(257)	(551)
Split-interest agreements	(69)	(1,026)
Funds held for others	96	141
Asset retirement obligations	13	(164)
Refundable government loan funds	11	246
Total adjustments	(27,137)	(21,884)
Net cash provided by operating activities	17,371	9,391
Cash flows from investing activities		
Proceeds from sales and maturities of investments	55,429	49,835
Purchase of investments	(47,464)	(47,046)
Investment of proceeds from long-term debt	-	(54,767)
Purchase of land, buildings, and equipment	(33,675)	(19,074)
Use of funds held under bond agreements	18,535	9,111
Disbursement of loans to students	(2,710)	(3,246)
Repayment of loans from students	4,123	4,185
Net cash used in investing activities	(5,762)	(61,002)
Cash flows from financing activities		
Contributions restricted for long-term investment	4,391	21,473
Deferred financing costs	(61)	(855)
Realized loss on interest rate agreements	(1,504)	(1,763)
Proceeds from long-term debt	1,662	107,375
Repayment of long-term debt	(5,882)	(58,278)
Net cash provided by financing activities	(1,394)	67,952
Net increase in cash and cash equivalents	10,215	16,341
Cash and cash equivalents at beginning of year	40,063	23,722
Cash and cash equivalents at end of year	$ 50,278	$ 40,063
Supplemental disclosures of cash flow information		
Interest paid	$ 9,152	$ 8,660
Contributed securities	$ 1,530	$ 28,754
Gifts-in-kind	$ 732	$ 2,252
Purchases of buildings and equipment included in accounts payable	$ 2,518	$ 4,326
Leased equipment	$ 1,262	$ 2,394

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 6,400 undergraduate and graduate students attend the University annually. The University is located in Worcester, Massachusetts and serves a diverse student body from almost every state and over 80 foreign countries.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

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

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 $6,128,000 and $5,986,000 of fundraising expenses for the years ended June 30, 2017 and 2016, 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 bonds and notes payables are deferred financing costs that are being amortized over the life of the related bonds.

For the years ended June 30, 2017 and 2016, deferred financing costs, net totaled approximately $2,466,000 and $2,490,000 respectively. Amortization expense for the years ended June 30, 2017 and 2016 was approximately $84,000 and $60,000, 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 $84,000 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.

While not part of a leveling category, fair values for certain investments held are based on net asset value (NAV) of such investments as determined by the respective external investment managers, including general partners, if market values are not readily ascertainable. These valuations are based on estimates involving assumptions and valuation techniques used by the respective investment managers.

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. 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, 2017 and 2016, the net deferred gain totaled $589,000 and $608,000, 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 April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments are effective beginning for the fiscal year July 1, 2016. The University adopted this standard in the fiscal year ending June 30, 2017 and applied it retrospectively for all periods presented. The impact of adopting the new accounting standard on the University's Consolidated Statement of Financial Position as of June 30, 2016 was a decrease in Prepaid expenses and other assets and decrease in Bonds and notes payable of $2,490.

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, 2017 and 2016 (in thousands):

	2017	2016
Sponsored research	$ 3,444	$ 4,696
Student receivables	1,823	2,030
Other receivables	1,575	1,229
	6,842	7,955
Less: Allowance for doubtful accounts	(587)	(586)
	$ 6,255	$ 7,369

4. Contributions Receivable

Unconditional promises are expected to be received in the following periods at June 30, 2017 and 2016 (in thousands):

	2017	2016
In one year or less	$ 5,991	$ 9,792
Between one and five years	4,190	4,807
	10,181	14,599
Less:		
Discount to present value	(191)	(217)
Allowance for doubtful contributions	(535)	(525)
	$ 9,455	$ 13,857

As of June 30, 2017 and 2016, the University has approximately $33,529,000 and $43,896,000, 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, 2017 and 2016, student loans represented 2.0% and 2.2% of total assets, respectively.

Student loans receivable consist of the following at June 30, 2017 and 2016 (in thousands):

	2017			2016		
	Federal Government Programs	Institutional Programs	Total	Federal Government Programs	Institutional Programs	Total
Student loans receivable	$ 10,854	$ 9,235	$ 20,089	$ 11,489	$ 10,238	$21,727
Less allowance for doubtful accounts:						
Beginning of year	(150)	(293)	(443)	(434)	(258)	(692)
Decreases (increases)	-	(83)	(83)	284	(170)	114
Write-offs	-	109	109	-	135	135
End of year	(150)	(267)	(417)	(150)	(293)	(443)
Student loans receivable, net	$ 10,704	$ 8,968	$ 19,672	$ 11,339	$ 9,945	$21,284

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 $9,272,000 and $9,261,000 at June 30, 2017 and 2016 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, 2017 and 2016 (in thousands):

	1-60 days	60-90 days	90+ days	Total past due
June 30, 2017	$ 14	$ 3	$ 919	$ 936
June 30, 2016	$ 17	$ 5	$ 1,036	$ 1,058

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, 2017 and 2016 (in thousands):

	2017	2016
Fair value, beginning of year	$ 18,293	$26,483
Net unrealized gains and (losses)	853	(1,416)
Contributions	-	754
Distributions, net	-	(7,528)
Fair value, end of year	$ 19,146	$18,293

7. Investments

Investments at June 30, 2017 are as follows (comparative totals are included for 2016) (in thousands):

	2017 Endowment and Similar Funds	2017 Split-Interest Agreements	2017 Total	2016 Total
Cash and cash equivalents	$ 5,256	$ 224	$ 5,480	$ 1,542
Equity securities	159,793	13,402	173,195	154,540
Fixed income securities	72,812	3,936	76,748	76,820
Commodities	12,332	-	12,332	12,628
Alternative investments				
Equity funds	133,532	-	133,532	132,413
Fixed income funds	46,491	-	46,491	42,387
Private equity funds	36,373	-	36,373	29,437
Real estate	42,562	-	42,562	40,621
Total investments	$ 509,151	$ 17,562	$ 526,713	$ 490,388

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, 2017 and 2016 (in thousands):

2017	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV Practical Expedient	Total
Cash and cash equivalents	$ 5,480	-	-	-	$ 5,480
Equity securities	173,195	-	-	-	173,195
Fixed income securities	76,748	-	-	-	76,748
Commodities	12,332	-	-	-	12,332
Alternative investments					
Equity funds	-	-	-	133,532	133,532
Fixed income funds	-	-	-	46,491	46,491
Private equity funds	-	-	1,002	35,371	36,373
Real estate	-	-	26,820	15,742	42,562
Total investments	$ 267,755	$ -	$ 27,822	$ 231,136	$ 526,713

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

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 believes the appraisals approximate fair value for real estate holdings at June 30, 2017 and 2016.

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, 2017 and 2016 not valued at NAV (in thousands):

Real estate investment	2017	2016	Valuation Technique	Unobservable Input	Range
Commercial real estate, Worcester, MA	$ 7,700	$ 7,400	Income capitalization	Capitalization Rate	5.39% - 9.56%
Commercial real estate, Florida	6,600	6,600	Income capitalization	Capitalization Rate	8.0% - 14.0%
Leased land, Worcester, MA	5,250	5,250	Income capitalization	Capitalization Rate	3.96% - 6.1%
Parking garage, Worcester, MA	3,475	3,475	Income capitalization	Capitalization Rate	8.25%
Undeveloped land, Worcester, MA	1,740	1,740	Sales comparison	Price per acre	$0.7M - $1.4M
				Comparability adjustments	-20% - +30%
Undeveloped land, Worcester, MA	1,600	1,600	Sales comparison	Price per acre	$0.7M - $1.4M
				Comparability adjustments	-5% - +45%
Residential real estate, US	455	910	Sales comparison	Price per square foot	$830K - $970K
	$ 26,820	$ 26,975			

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

The following tables summarize key provisions for the University's alternative investments valued at NAV as of June 30, 2017 and 2016 (in thousands):

2017

Asset Class	Strategy	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Absolute Return - Market Neutral	Global equity and fixed income funds in market neutral categories	$107,369	No limit		Redemption terms range from quarterly with 60 to 90 days notice to annually with 45 to 90 days notice.	Lock-up provisions range from none to redemptions limited to 1/3 of the value annually.
Private Equity	Venture capital and buyout in the US and global markets	35,371	1 to 13 years	38,133	Private equity structure with no ability to redeem.	Not redeemable
Directional Hedge	Global long/short equity funds	72,654	No limit		Redemption terms are quarterly with 60 days notice.	No lock-up provisions
Real Estate	US real estate	15,742	1 to 8 years	30,679	Private equity structure with no ability to redeem.	Not redeemable
Total		$ 231,136		$ 68,812		

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 w ith 60 to 90 days notice to annually w ith 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 w ith no ability to redeem.	Not redeemable
Directional Hedge	Global long/short equity funds	69,634	No limit	-	Redemption terms are quarterly w ith 60 days notice.	No lock-up provisions
Real Estate	US real estate	13,646	1 to 9 years	22,227	Private equity structure w ith no ability to redeem.	Not redeemable
Total		$ 216,881		$ 65,276		

The following table summarizes the changes in the Level 3 investments carried at fair value during the years ended June 30, 2017 and 2016 (in thousands):

	Equity Funds	Fixed Income Funds	Private Equity Funds	Real Estate	Total
Fair value, June 30, 2015	$ -	$ -	$ 1,002	$ 19,400	$ 20,402
Transfers out	-	-			-
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
Net realized and unrealized gains	-	-	-	185	185
Purchases	-	-	-	-	-
Sales and settlements	-	-	-	(340)	(340)
Fair value, June 30, 2017	$ -	$ -	$ 1,002	$ 26,820	$ 27,822

In the consolidated statements of activities for the years ended June 30, 2017 and 2016, net realized and unrealized gains and losses on Level 3 investments are included in nonoperating net realized and unrealized gains and losses on investments.

Endowment Income and Spending

In addition to current yield (interest, dividends, and net rental income), the University has interpreted state law to allow for the utilization of capital appreciation on permanently restricted endowment funds unless explicit donor stipulations specify how net appreciation must be used. Accordingly, the University segregates capital appreciation between that which can be used for current operations and that which is attributable to permanently restricted endowment funds. For financial reporting purposes, current yield and capital appreciation attributed to permanently restricted endowment funds are considered 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, 2017, with comparative totals for 2016, is summarized as follows (in thousands):

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income on endowment and similar funds	$ 2,297	$ 1,922	$ 75	$ 4,294
Net realized and unrealized gains/(losses) on investments	20,018	24,632	(554)	44,096
Return on endowment and similar funds	22,315	26,554	(479)	48,390
Other investment income	2,242	685	29	2,956
Total return on investments	24,557	27,239	(450)	51,346
Investment return designated for current unrestricted operations	(12,567)	(14,015)	-	(26,582)
Investment return net of return utilized	$ 11,990	$ 13,224	$ (450)	$ 24,764

	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)

Investment income is net of investment management fees of approximately $695,000 and $601,000 for the years ended June 30, 2017 and 2016, 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 4.8% and 4.9% of its endowment and similar funds' average unit fair value for the previous twelve quarters, from the beginning of the fiscal year, for the years ended June 30, 2017 and 2016, respectively.

The spending rule distributions for fiscal years 2017 and 2016, respectively, were $0.289 and $0.284 per time weighted unit, comprised of, respectively, $0.056 and $0.058 of income and $0.233 and $0.226 of distributions from current and accumulated net gains. At June 30, 2017 there were a total of 76,722,149 units in the pooled endowment and similar funds, each having a fair value of $6.202. Of the total units, 42,988,786 were owned by endowment funds and 33,733,363 were owned by internally designated funds. 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.

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
2017	$ 0.056	$ 6.202
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 $882,000and $2,359,000 at June 30, 2017 and 2016, 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, 2017 and 2016 and the changes for the years then ended are as follows (in thousands):

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 102,161	$ 194,365	$ 296,526
Quasi-endowment	188,001	-	-	188,001
Total	$ 188,001	$ 102,161	$ 194,365	$ 484,527
Balance, June 30, 2016	$ 173,495	$ 89,240	$ 190,438	$ 453,173
Investment return:				
Investment income	4,183	1,922	-	6,105
Net appreciation (depreciation) realized and unrealized	18,924	23,741	(554)	42,111
Total investment return	23,107	25,663	(554)	48,216
Contributions	2,246	143	4,481	6,870
Appropriated for expenditure	(12,324)	(11,408)	-	(23,732)
Decrease in provision for underwater funds	1,477	(1,477)	-	-
Balance, June 30, 2017	$ 188,001	$ 102,161	$ 194,365	$ 484,527

	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

Split-Interest Agreements

Investments include the following split-interest agreements at June 30, 2017 and 2016 (in thousands):

	2017	2016
Charitable gift annuities	$ 8,151	$ 8,513
Charitable remainder trusts	7,916	6,926
Pooled income funds	1,495	1,533
	$ 17,562	$ 16,972

8. Land, Buildings and Equipment

Land, buildings and equipment, net, consist of the following at June 30, 2017 and 2016 (in thousands):

	2017	2016
Land and land improvements	$ 26,005	$ 25,849
Buildings and improvements	431,058	420,207
Equipment	78,675	71,121
	535,738	517,177
Less: Accumulated depreciation	(238,565)	(217,624)
	297,173	299,553
Construction-in-progress	22,675	9,366
	$ 319,848	$ 308,919

Depreciation expense charged to operations was approximately $21,012,000 and $20,568,000 for the years ended June 30, 2017 and 2016, respectively. Net interest cost capitalized was approximately $712,000 and $270,000 for the years ended June 30, 2017 and 2016, respectively.

9. Bonds and Notes Payable

Bonds and notes payable consist of the following (in thousands) at June 30, 2017 and 2016:

Purpose and Definition	Maturity Date	Interest Rate %	Original Issue	Amount Due Within One Year	Balance, June 30, 2017	Balance, June 30, 2016
Bonds payable						
Housing and Urban Development 1969 Series C (1)	4/1/2019	3.0	$ 1,160	45	$ 87	$ 127
Massachusetts Development Finance Agency ("MDFA") 2007 Series (2)	9/1/2047	4.0-5.0	81,915	1,485	18,441	20,606
MDFA 2008 Series A & B (3)	9/1/2035	Variable	54,815	1,985	44,505	46,415
MDFA 2010 Series (4)	9/1/2045	4.5-5.0	56,000	-	56,057	56,059
MDFA 2012 Series (5)	9/1/2050	4.0-5.0	42,540	-	43,263	43,284
MDFA 2014 Series (3)	9/1/2029	3.10	2,782	178	4,241	4,010
MDFA 2016 Series (6)	9/1/2052	3.0-5.0	49,030	-	48,868	49,030
Worcester Polytechnic Institute 2016 Series (3)	9/1/2056	4.338	56,905	-	56,905	56,905
Uncollateralized notes						
TD Bank	7/1/2023	Variable	7,122	356	5,757	6,113
Capital lease obligations	Various	Various		1,198	3,772	3,768
Total				5,247	281,896	286,317
Less: deferred financing costs, net of amortization					(2,466)	(2,490)
Total bonds and notes payable				$ 5,247	$ 279,430	$ 283,827

(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, 2017 and 2016 include a premium of approximately $461,000 and $476,000, 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, 2017 and 2016 include a premium of approximately $57,000 and $59,000, respectively.

(5) The bonds represent a general obligation of the University. The balances at June 30, 2017 and 2016 include a premium of approximately $723,000 and $744,000, respectively.

(6) The bonds represent a general obligation of the University. The balance at June 30, 2017 and 2016 includes a premium of approximately $5,833,000 and $5,995,000, respectively.

In compliance with the University's various bond indentures, funds held under bond agreements at June 30, 2017 and 2016 include investments of approximately $376,000 and $1,871,000, 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):

2018	$	5,247
2019		4,049
2020		3,981
2021		3,786
2022		3,456
Thereafter		254,302
Total cash payments	$	274,821
Premium		7,075
	$	281,896

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.

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 4.34%. The final maturity is September 1, 2056.

In August 2014, the University borrowed $4,622,000 in the form of MDFA Revenue Bond Series 2014 private placement "draw-down bonds" (the "2014 Bonds") to finance renovations, repairs and improvements to existing facilities. The "draw-down bonds" comprise three term bonds in the initial par amounts of $2,782,000 (Term Bond A), $1,440,000 (Term Bond B), and $400,000 (Term Bond C) to be drawn on or before September 1, 2014, 2015, and 2016, respectively. The 2014 Bonds are payable in monthly installments of principal plus interest and mature September 1, 2029. Interest is set at the time of draw-down at either a variable rate (0.6975 of the sum of 125 basis points and LIBOR) or a fixed rate (0.6975 of the sum of 125 basis points plus the Federal Home Loan Bank Rate). As of June 30, 2017, the University borrowed $2,782,000 (Term Bond A) with interest payable at a fixed rate of 3.10%, $1,440,000 (Term Bond B) with interest payable at a fixed rate of 3.01%, and $400,000 (Term Bond C) with interest payable at a fixed rate of 2.50%. Principal payments for Term Bond A range from $8,084 to $12,228 per month beginning October 1, 2014 through August 1, 2029 with a final installment of $989,887 due September 1, 2029. Principal payments for Term Bond B range from $4,466 to $6,558 per month beginning October 1, 2015 through August 1, 2029 with a final installment of $530,892 due September 1, 2029. Principal payments for Term Bond C range from $1,327 to $1,892 per month beginning October 1, 2016 through August 1, 2029 with a final installment of $153,170 due September 1, 2029.

In August 2013, the University refinanced borrowings of $7,122,000 in the form of two uncollateralized notes payable to TD Bank. The proceeds from the original borrowings in 2010 were used to refinance the debt assumed for the acquisition of the remaining interest in Gateway and Washburn. The borrowings consist of two notes payable with balloon payments due in 2023. Monthly installments of principal totaling $29,675 are paid based on a 20 year amortization with interest at 1.5% plus LIBOR, approximately 2.72% and 1.96% at June 30, 2017, and 2016, 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. As of June 30, 2017 the 2008B Bonds had been retired. Interest on the 2008 Bonds is at a variable rate which is reset on a weekly basis. The interest rates at June 30, 2017 for the 2008A Bonds were 0.90%. At June 30, 2016, the rates for the 2008A and 2008B Bonds were 0.40% and 0.46%, 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, $4,451,000, $8,901,000 and $13,352,000.

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

June 2016. The remaining amounts outstanding of $20,606,000 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, 2017 and 2016.

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, 2017 and 2016 (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, 2017	$ 2,957	$ 5,325	$ -	$ 8,282
June 30, 2016	$ 4,091	$ 7,937	$ 3	$ 12,031

The net unrealized gain or loss that was recognized for the interest rate swap agreements for the years ended June 30, 2017 and 2016 was approximately a gain of $3,749,000 and a loss of $2,433,000, 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, 2017 and 2016, the fair value liability for interest rate swap agreements totaled $8,282,000 and $12,031,000, 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, 2017, the University is not required to post collateral to its counterparties.

11. Retirement Plan

The University participates in a defined contribution retirement plan for substantially all of its employees. Employees may elect to invest in various accounts with the Teachers' Insurance and Annuity Association of America ("TIAA"), Fidelity Investments, or a combination of both. Contributions were approximately $9,131,000 and $8,581,000 for the years ended June 30, 2017 and 2016, respectively. Contributions are based upon a percentage of the employees' compensation.

12. Net Assets

Net assets consist of the following at June 30, 2017 and 2016 (in thousands):

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds				
Long-term investment (quasi - endowment)	$ 188,001			$ 188,001
Original principal			194,365	194,365
Unspent income and appreciation				
Scholarship support		63,530		63,530
Faculty support		12,572		12,572
Program support		26,059		26,059
Total endowment funds	188,001	102,161	194,365	484,527
Split-interest agreements and perpetual trusts	1,686	8,024	18,319	28,029
Student loan funds	12,854	-	3,897	16,751
Gifts and other unexpended revenues				
Acquisition of building and equipment	-	11,271	-	11,271
Instruction, research, and institutional support	-	7,224	-	7,224
Undesignated	94,863	-	-	94,863
	$ 297,404	$ 128,680	$ 216,581	$ 642,665

	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

13. Related Parties

Prescott Holdings, LLC (“Prescott Holdings”)
Prescott Holdings was formed to develop land in the Gateway Park area of Worcester. The University had a 12.5% interest and accounts for its investment at cost. During the year ended June 30, 2016, property owned by Prescott Holdings was sold and there were no outstanding mortgages or construction notes payable for which the University had entered into limited guarantees.

Alumni Association of Worcester Polytechnic Institute (“Alumni Association”)
The Alumni Association, a separate 501(c)(3) organization, invests the majority of its funds in the University’s endowment. At June 30, 2017 and 2016, funds held for others in the consolidated statements of financial position include Alumni Association assets of $2,964,000 and $2,780,000, respectively.

14. Commitments and Contingencies

Construction Contracts
For the years ended June 30, 2017 and 2016, the University had contracted for various renovations and construction projects across campus totaling approximately $42,449,000 and $29,515,000, 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, 2017 and 2016, the University had unfunded commitments of approximately $64,352,000 and $65,276,000, 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, 2017, are approximately as follows (in thousands):

2018	$	1,715
2019		1,466
2020		1,290
2021		1,218
2022		1,207
Thereafter		2,923

Rental expense was approximately $2,119,000 and $2,118,000 for the years ended June 30, 2017 and 2016, respectively.

Guarantees
The University has guaranteed commercial loans with an outstanding amount of approximately $2,136,000 to seven fraternities. These loans are collateralized by real property owned by the fraternities.

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

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

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

Self-insured Medical Claims
The University is self-insured for medical claims and is a member of a captive insurer providing stop-loss insurance to cover plan expenses in excess of certain limits. Management believes insurance claims that have occurred as of June 30, 2017 and 2016 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

In October 2017, the University borrowed $14,435,000 in the form of Massachusetts Development Finance Agency ("MDFA") Revenue Bonds Series 2017 (tax-exempt). The proceeds from these bonds were used to advance refund the University's outstanding MDFA Series 2007 bonds and to pay certain costs of issuance.

The MDFA 2017 Bonds are fixed rate bonds payable in annual installments with principal payments ranging from $375,000 to $695,000 beginning September 1, 2018, and interest ranging from 3.0% to 5.0%. The final maturity is September 1, 2037.

Management has evaluated subsequent events for the period after June 30, 2017 through November 3, 2017, the date the financial statements were posted to the University's website, and determined that there have been no other subsequent events that would require recognition in the financial statements or disclosure in the notes of the financial statements.