

# **Worcester Polytechnic Institute**

**Report on Federal Awards in Accordance with  
OMB Uniform Guidance**

**Year Ended June 30, 2017**

**Entity Identification Number: 04-21216594**

**Worcester Polytechnic Institute**  
**Index**  
**June 30, 2017 and 2016**

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	<b>Page(s)</b>
<b>I. FINANCIAL STATEMENTS</b>	
Report of Independent Auditors .....	1-2
Worcester Polytechnic Institute Consolidated Financial Statements.....	3-28
Schedule of Expenditure of Federal Awards.....	29-32
Notes to Schedule of Expenditure of Federal Awards .....	33
<b>II. REPORTS ON INTERNAL CONTROLS AND COMPLIANCE</b>	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	35-36
Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with Uniform Guidance.....	37-38
<b>III. SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....</b>	<b>39-41</b>
<b>IV. SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS.....</b>	<b>42-43</b>
<b>V. MANAGEMENT’S CORRECTIVE ACTION PLAN.....</b>	<b>44-45</b>

**PART I**  
**FINANCIAL STATEMENTS**



## **Report of Independent Auditors**

To the Board of Trustees  
Of Worcester Polytechnic Institute

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Worcester Polytechnic Institute, which comprise the consolidated statement of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

#### ***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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Worcester Polytechnic Institute'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 Worcester Polytechnic Institute'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 consolidated 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.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2017 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2017 on our consideration of Worcester Polytechnic Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Worcester Polytechnic Institute's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*  
Hartford, Connecticut  
November 3, 2017

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

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	2017	2016
<b>Assets</b>		
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
	<u>          </u>	<u>          </u>
Total assets	\$ 986,536	\$ 953,330
<b>Liabilities</b>		
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
	<u>          </u>	<u>          </u>
Total liabilities	343,871	355,173
<b>Net assets</b>		
Unrestricted	297,404	271,993
Temporarily restricted	128,680	113,487
Permanently restricted	216,581	212,677
	<u>          </u>	<u>          </u>
Total net assets	642,665	598,157
	<u>          </u>	<u>          </u>
Total liabilities and net assets	\$ 986,536	\$ 953,330

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues</b>				
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
<b>Operating expenses</b>				
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
<b>Nonoperating</b>				
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 financial statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues</b>				
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
<b>Operating expenses</b>				
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
<b>Nonoperating</b>				
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 financial statements.



**Worcester Polytechnic Institute**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016 (in thousands)**

	2017	2016
<b>Cash flows from operating activities</b>		
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
<b>Cash flows from investing activities</b>		
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)
<b>Cash flows from financing activities</b>		
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
<b>Supplemental disclosures of cash flow information</b>		
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 financial statements.

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2017 and 2016

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#### 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

# **Worcester Polytechnic Institute**

## **Notes to Consolidated Financial Statements**

### **June 30, 2017 and 2016**

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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

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2017 and 2016

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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.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

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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

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2017 and 2016

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#### **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,

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

---

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
	<u>6,842</u>	<u>7,955</u>
Less: Allowance for doubtful accounts	(587)	(586)
	<u>\$ 6,255</u>	<u>\$ 7,369</u>

**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
	<u>10,181</u>	<u>14,599</u>
Less:		
Discount to present value	(191)	(217)
Allowance for doubtful contributions	(535)	(525)
	<u>\$ 9,455</u>	<u>\$ 13,857</u>

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):

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

	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



**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

**7. Investments**

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

	2017			2016 Total
	Endowment and Similar Funds	Split-Interest Agreements	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
<b>Total investments</b>	<b>\$ 509,151</b>	<b>\$ 17,562</b>	<b>\$ 526,713</b>	<b>\$ 490,388</b>

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				Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV Practical Expedient	
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
<b>Total investments</b>	<b>\$ 267,755</b>	<b>\$ -</b>	<b>\$ 27,822</b>	<b>\$ 231,136</b>	<b>\$ 526,713</b>

	2016				Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV Practical Expedient	
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
<b>Total investments</b>	<b>\$ 245,530</b>	<b>\$ -</b>	<b>\$ 27,977</b>	<b>\$ 216,881</b>	<b>\$ 490,388</b>

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2017 and 2016

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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):

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

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
	<u>\$ 26,820</u>	<u>\$ 26,975</u>			

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		<u>\$ 231,136</u>		<u>\$ 68,812</u>		

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

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		<u>\$ 216,881</u>		<u>\$ 65,276</u>		

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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,002</u>	<u>\$ 26,820</u>	<u>\$ 27,822</u>

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

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

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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:

<u>Asset Allocation Policy</u>	<u>Target %</u>
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):

	<u>2017</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>\$ 11,990</u>	<u>\$ 13,224</u>	<u>\$ (450)</u>	<u>\$ 24,764</u>
	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>\$ (9,116)</u>	<u>\$ (12,038)</u>	<u>\$ 85</u>	<u>\$ (21,069)</u>

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

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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:

	<b>Income Per Time- Weighted Unit</b>	<b>Fair Value Per Unit</b>
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 \$882,000 and \$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.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

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**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):

	<b>2017</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted	\$ -	\$ 102,161	\$ 194,365	\$ 296,526
Quasi-endowment	188,001	-	-	188,001
<b>Total</b>	<b>\$ 188,001</b>	<b>\$ 102,161</b>	<b>\$ 194,365</b>	<b>\$ 484,527</b>
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
<b>Total investment return</b>	<b>23,107</b>	<b>25,663</b>	<b>(554)</b>	<b>48,216</b>
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)	-	-
<b>Balance, June 30, 2017</b>	<b>\$ 188,001</b>	<b>\$ 102,161</b>	<b>\$ 194,365</b>	<b>\$ 484,527</b>

	<b>2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted	\$ -	\$ 89,240	\$ 190,438	\$ 279,678
Quasi-endowment	173,495	-	-	173,495
<b>Total</b>	<b>\$ 173,495</b>	<b>\$ 89,240</b>	<b>\$ 190,438</b>	<b>\$ 453,173</b>
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)
<b>Total investment return</b>	<b>2,964</b>	<b>(3,076)</b>	<b>-</b>	<b>(112)</b>
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	-	-
<b>Balance, June 30, 2016</b>	<b>\$ 173,495</b>	<b>\$ 89,240</b>	<b>\$ 190,438</b>	<b>\$ 453,173</b>

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

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**Split-Interest Agreements**

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

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

**8. Land, Buildings and Equipment**

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

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

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.



**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

**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
<b>Bonds payable</b>						
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
<b>Uncollateralized notes</b>						
TD Bank	7/1/2023	Variable	7,122	356	5,757	6,113
<b>Capital lease obligations</b>						
	Various	Various		1,198	3,772	3,768
<b>Total</b>				5,247	281,896	286,317
<b>Less: deferred financing costs, net of amortization</b>					(2,466)	(2,490)
<b>Total bonds and notes payable</b>				<u>\$ 5,247</u>	<u>\$ 279,430</u>	<u>\$ 283,827</u>

- (1) Collateralized by land, building and equipment known as Stoddard Residence Center and pledged net revenues from the operations of the dormitory.
- (2) The bonds represent a general obligation of the University. The balances at June 30, 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.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

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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	<u>254,302</u>
Total cash payments	\$ 274,821
Premium	<u>7,075</u>
	<u>\$ 281,896</u>

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.

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2017 and 2016

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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

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

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 $\geq$ 4.00%	one-month LIBOR		
		SIFMA Municipal Swap Index when LIBOR is < 4.00%			
Series 2008 A&B					
Fair Value Liability	Deutsche Bank AG	Barclays Bank PLC	Barclays Bank PLC	Total, net	
June 30, 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.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2017 and 2016**

**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):

	<b>2017</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
<b>Endowment funds</b>				
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
<b>Total endowment funds</b>	<b>188,001</b>	<b>102,161</b>	<b>194,365</b>	<b>484,527</b>
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
	<b>\$ 297,404</b>	<b>\$ 128,680</b>	<b>\$ 216,581</b>	<b>\$ 642,665</b>
	<b>2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment funds</b>				
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
<b>Total endowment funds</b>	<b>173,495</b>	<b>89,240</b>	<b>190,438</b>	<b>453,173</b>
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
	<b>\$ 271,993</b>	<b>\$ 113,487</b>	<b>\$ 212,677</b>	<b>\$ 598,157</b>

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2017 and 2016

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#### 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,

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2017 and 2016

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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, 2047.

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.

**Worcester Polytechnic Institute**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2017 and 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Entity Identifying Number	Total Expenditures	Through to Subrecipients
<b>STUDENT FINANCIAL AID CLUSTER</b>				
<u><b>U.S. Department of Education</b></u>				
Supplemental Educational Opportunity Grants	84.007		\$ 443,601	-
William D. Ford Federal Direct Stafford Loan Program	84.268		25,161,400	-
Work Study Program	84.033		422,160	-
Pell Grant Program	84.063		2,222,007	-
Perkins Loan Program			-	-
Outstanding Loans as of July 1, 2016	84.038		11,488,682	-
New Loans issued during 2017	84.038		1,351,365	-
Administrative Cost Allowance	84.038		66,860	-
Total Student Financial Aid			<u>41,156,075</u>	<u>-</u>
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>				
<u><b>Department of Agriculture</b></u>				
Direct Programs	10.RD		34,627	-
Pass-Through Programs From Iowa State University	10.310	416-41-54B/2015-67013-23511	<u>38,760</u>	<u>-</u>
Total Department of Agriculture			<u>73,387</u>	<u>-</u>
<u><b>Department of Commerce</b></u>				
<b>National Institute for Standards and Technology</b>				
Science, Technology, Business and/or Education Outreach	11.620		<u>40,325</u>	<u>-</u>
Total National Institute for Standards and Technology			<u>40,325</u>	<u>-</u>
<u><b>Department of Defense</b></u>				
<b>Department of the Air Force</b>				
Air Force Defense Research Sciences Program	12.800		334,866	-
Pass-Through Programs From Aurora Flight Sciences Corporation	12.RD	AFS15-1586	<u>136,374</u>	<u>-</u>
Total Department of the Air Force			<u>471,240</u>	<u>-</u>
<b>Department of the Army</b>				
Basic Scientific Research	12.431		3,289,321	1,791,314
Military Medical Research and Development	12.420		76,076	76,076
Pass-Through Programs From Brown University	12.431	00001033/W911NF1510562	56,023	-
Spaulding Rehabilitation Hospital in Boston	12.420	W81XWH-15-2-0078	<u>(682)</u>	<u>-</u>
Total Department of the Army			<u>3,420,738</u>	<u>1,867,390</u>
<b>Department of the Navy</b>				
Basic and Applied Scientific Research	12.300		123,726	-
Pass-Through Programs From ALMMII	12.630	0002B-8/N00014-14-2-0002	91,205	-
ALMMII	12.630	0002C-8/N00014-14-2-0002	18,285	-
ALMMII	12.300	001/N00014-14-2-0002	88,750	-
The University of Memphis	12.300	540521/N0001416C3027	<u>29,992</u>	<u>-</u>
Total Department of the Navy			<u>351,938</u>	<u>-</u>
<b>United States Transportation Command</b>				
Pass-Through Programs From MIT Lincoln Laboratory	12.RD	7000326615	<u>6,496</u>	<u>-</u>
Total Transportation Command			<u>6,496</u>	<u>-</u>
Total Department of Defense			<u>4,250,412</u>	<u>1,867,390</u>

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



**Worcester Polytechnic Institute**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2017 and 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures	Amounts Passed Through to Subrecipients
<b>Department of Education</b>				
Graduate Assistance in Areas of National Need	84.200		241,991	-
Education Research, Development and Dissemination	84.305		445,879	42,967
Pass-Through Programs From SRI International	84.305	128-000013/R305A120125	1,892	-
Total Department of Education			<u>689,762</u>	<u>42,967</u>
<b>Department of Energy</b>				
Pass-Through Programs From Argonne National Laboratory	81.RD	4F-30361/DE-AC02-06CH11357	33,798	-
BWXT Pantex, LLC.	81.RD	PTX010000041529/DENA0001942	112,831	-
BWXT Pantex, LLC.	81.RD	PTX010000056461/DENA0001942	123,227	-
Missouri University of Science & Technology	81.RD	000057897/DE-NA000062	4,557	-
MIT	81.049	5710003766/DE-SC0012555	158,922	-
Novarials Corporation	81.RD	DE-SC0015261	31,997	-
Sandia National Laboratories	81.RD	1679802/DEAC0494AL85000	162,322	-
The United States Advanced Battery Consortium LLC (USABC)	81.RD	16-2175-ABC/DE-EE0006250	252,779	56,401
Total Department of Energy			<u>880,433</u>	<u>56,401</u>
<b>Department of Health and Human Services</b>				
<b>Agency for Healthcare Research and Quality</b>				
Research on Healthcare Costs, Quality and Outcomes (B)	93.226		108,477	39,421
Total Agency for Healthcare Research and Quality			<u>108,477</u>	<u>39,421</u>
<b>National Institutes of Health</b>				
Arthritis, Musculoskeletal and Skin Diseases Research (B)	93.846		353,862	4,879
Biomedical Research and Research Training (B, M)	93.859		934,380	209,869
Cancer Cause and Prevention Research	93.393		264,830	-
Cancer Detection and Diagnosis Research (B)	93.394		582,451	331,048
Cardiovascular Diseases Research	93.837		367,604	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		350,603	53,243
Research and Training in Complementary and Integrative Health	93.213		177,267	-
Research Related to Deafness and Communication Disorders	93.173		25,258	-
Trans-NIH Research Support	93.310		37,052	-
Pass-Through Programs From Brigham & Women's Hospital	93.394	107351/2R01CA111288-06	81,189	-
Broad Institute of MIT and Harvard	93.855	50354175500000849/SU19A1110818	44,056	-
Broad Institute of MIT and Harvard	93.855	5U19A11108186 5035424-55000967	28,604	-
Butler Hospital	93.273	9256-8304	25,082	-
Butler Hospital	93.279	0242-8304,1R2DA041153-01A1	25,081	-
Icahn School of Medicine at Mount Sinai	93.859	0254-3463-4609/5P50GM07155808	17,732	-
Icahn School of Medicine at Mount Sinai	93.859	0255-0651-4609/2R01GM072853-09	160,820	-
Liberating Technologies, Inc.	93.865	2R42HD076519-02	46,211	-
Massachusetts Eye and Ear Infirmary	93.173	2300163-01/1R01DC016079-01	8,376	-
Pennsylvania State University	93.859	4840WPDHHS0076/1R01GM10007601	53,817	-
Pennsylvania State University	93.859	5641WPDHHS1679/1R1GM12167901	5,337	-
University of Massachusetts Medical School	93.847	WA00136774/DK098556	(683)	-
University of Massachusetts Medical School	93.837	R01HL122302-01A1	189,520	-
University of Massachusetts Medical School	93.242	WA00320040/RFS2016011	14,161	-
University of Massachusetts Medical School	93.853	WA00484705/OSP2017069	17,903	-
Total National Institutes of Health			<u>3,810,513</u>	<u>599,039</u>
Total Department of Health and Human Services			<u>3,918,990</u>	<u>638,460</u>

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

**Worcester Polytechnic Institute**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2017 and 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures	Amounts Passed Through to Subrecipients
<b>Department of Homeland Security</b>				
Assistance to Firefighters Grant	97.044		244,179	101,677
Pass-Through Programs From CFAI-Risk, Inc.	97.044	CFAI-Risk-15/EMW-2014-FP-00233	88,251	-
Total Department of Homeland Security			<u>332,430</u>	<u>101,677</u>
<b>Department of Interior</b>				
US Department of Interior	15.RD		858,384	-
Pass-Through Programs From Applied Research Associates, Inc.	15.RD	PO17-00402/E15PC00005	38,841	-
Total Department of Interior			<u>897,225</u>	<u>-</u>
<b>Department of Justice</b>				
Pass-Through Programs From Clark University	16.525	2P002-7533/2009-WA-AX-0012	1,252	-
Total Department of Justice			<u>1,252</u>	<u>-</u>
<b>Department of Transportation</b>				
Pass-Through Programs From Maine Department of Transportation	20.RD	20140327000000000540	28,399	-
Maine Department of Transportation	20.RD	VC1000097384	24,738	-
University of New Hampshire	20.RD	14-051/DTFH61-13-C-00022	23,739	-
Total Department of Transportation			<u>76,876</u>	<u>-</u>
<b>National Aeronautics and Space Administration</b>				
Space Operations	43.007		88,844	1,519
Cross Agency Support	43.009		63,738	-
Pass-Through Programs From University of Vermont	43.012	30175SUB52002	33,416	-
Total National Aeronautics and Space Administration			<u>185,998</u>	<u>1,519</u>
<b>National Science Foundation</b>				
Engineering Grants	47.041		1,628,614	51,153
Mathematical and Physical Sciences	47.049		1,106,233	38,184
Computer and Information Science and Engineering	47.070		1,978,840	70,093
Biological Sciences	47.074		626,796	31,531
Education and Human Resources	47.076		1,506,704	116,014
International Science and Engineering (OISE)	47.079		34,555	-
Pass-Through Programs From Battery Resourcers, LLC	47.041	300-01/1549531	31,689	-
Brown University	47.076	00000811/DRL-1535276	7,577	-
Brown University	47.070	00000690/CCF-1408745	28,102	-
Columbia University	47.076	513135/DRL1252297	255,420	-
Harrisburg University of Science and Technology	47.076	/11224488	2,137	-
Harrisburg University of Science and Technology	47.076	SENCER/HARRIS.UNIV-NSF	3,308	-
Histogen, Inc.	47.041	WPL-201501/1P-1521294	15,904	-
Mathematical Association of America	47.049	3-8-710-949/DMS-1345499	30,949	-
Research Foundation of SUNY	47.076	73299-118962-3/1613217	7,101	-
University of Connecticut	47.076	133185 PART OF 204231	6,335	-
University of Illinois - Chicago	47.076	2013-03309/DRL-1316736	176,189	-
University of Illinois - Urbana-Champaign	47.041	083140-16245	21,980	-
University of Louisville	47.049	ULRF 14-0592-02/DMR-1410678	68,189	-
University of Massachusetts Amherst	47.076	12-006782 E 00/HRD-1102489	53,378	-
University of Massachusetts Amherst	47.041	16-009066 A/CBET-1511367	70,106	-
University of Washington	47.070	UWSC8797	89,965	-
Total National Science Foundation			<u>7,750,071</u>	<u>306,975</u>

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

**Worcester Polytechnic Institute**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2017 and 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures	Amounts Passed Through to Subrecipients
<b><u>Nuclear Regulatory Commission</u></b>				
Nuclear Regulatory Commission Direct Programs	77.RD		90,654	-
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008		168,290	-
Total Nuclear Regulatory Commission			<u>258,944</u>	<u>-</u>
Total Research and Development Cluster			<u>19,356,105</u>	<u>3,015,389</u>
<b>OTHER PROGRAMS</b>				
<b><u>Department of Defense</u></b>				
Pass-Through Programs From				
Institute of International Education	12.357	2603-WPI-33/H98210-13-2-0001	134,787	
<b><u>Department of the Air Force</u></b>				
Pass-Through Programs From				
Massachusetts Institute of Technology Lincoln Laboratory	12.U01	7000361025	43,012	
Massachusetts Institute of Technology Lincoln Laboratory	12.U02	7000247916	(431)	
Total Department of Air Force			<u>42,581</u>	
Total Department of Defense			<u>177,368</u>	
<b><u>Department of Education</u></b>				
Undergraduate International Studies and Foreign Language	84.016		40,664	
Total Department of Education			<u>40,664</u>	
<b><u>Department of State</u></b>				
Academic Exchange Programs - Undergraduate Programs	19.009		5,256	
Total Department of State			<u>5,256</u>	
<b><u>Environmental Protection Agency</u></b>				
P3 Award: National Student Design Competition for Sustainability (B)	66.516		(207)	
Total Environmental Protection Agency			<u>(207)</u>	
<b><u>National Security Agency</u></b>				
GenCyber Grants Program	12.903		108,952	
Total National Security Agency			<u>108,952</u>	
<b><u>Nuclear Regulatory Commission</u></b>				
U.S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006		26,352	
Total Nuclear Regulatory Commission			<u>26,352</u>	
Total Other Programs			<u>358,385</u>	
Total Expenditures of Federal Awards			<u>\$ 60,870,565</u>	<u>\$ 3,015,389</u>

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

# Worcester Polytechnic Institute

## Notes to Schedule of Expenditures of Federal Awards

### June 30, 2017 and 2016

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#### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule"), includes the federal grant activity of Worcester Polytechnic Institute (the "University") for the year ended June 30, 2017 and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* or with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards* (Uniform Guidance), as applicable. As the Schedule presents only a selected portion of the expenditures of the University, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of the University. Direct awards are listed in total and pass-through awards are listed individually (with pass-through numbers when available) on the Schedule. Negative amounts represent adjustments or credits to amounts reported as expenditures in prior years in the normal course of business. CFDA numbers are presented where available. Federal Loan Programs are represented on the Schedule in accordance with Uniform Guidance Part 200.502 *Basis of determining federal awards expended* to include previous balance of amounts outstanding and current loans dispersed for which the University is the lender.

#### 2. Indirect Costs

The University applies its predetermined approved facilities and administrative rate when charging indirect costs to federal awards rather than the 10% de minimus cost rate as described in Section 200.414 of the Uniform Guidance.

#### 3. Federal Student Loan Programs

The University processed \$1,351,365 of new loans under the Perkins Loan Program (CFDA # 84.038) for the year ended June 30, 2017. The new loans were funded by repayments of previously issued Perkins Loans. The balance of Perkins Loans outstanding at June 30, 2017 was \$10,853,743. The Supplemental Educational Opportunity Grants and Work Study Program line items include administrative allowances.

In addition, the University processed \$25,161,400 of loans under the William D. Ford Federal Direct Stafford Loan Program (CFDA 84.268) for the year ended June 30, 2017.

**PART II**  
**REPORTS ON INTERNAL CONTROLS AND COMPLIANCE**



## **Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees  
Of Worcester Polytechnic Institute

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Worcester Polytechnic Institute, which comprise the consolidated statement of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 3, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Worcester Polytechnic Institute's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Worcester Polytechnic Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Worcester Polytechnic Institute's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**


As part of obtaining reasonable assurance about whether Worcester Polytechnic Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item-Finding No. 17-001 – Failure to report direct loan disbursement in a timely manner.

## **Worcester Polytechnic Institute's Response to Findings**

Worcester Polytechnic Institute's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Worcester Polytechnic Institute's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Hartford, Connecticut  
November 3, 2017



**Report of Independent Auditors on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control  
Over Compliance in Accordance with the Uniform Guidance**

To the Board of Trustees  
Of Worcester Polytechnic Institute

**Report on Compliance for Each Major Federal Program**

We have audited Worcester Polytechnic Institute's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Worcester Polytechnic Institute's major federal programs for the year ended June 30, 2017. Worcester Polytechnic Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Worcester Polytechnic Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Worcester Polytechnic Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Worcester Polytechnic Institute's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Worcester Polytechnic Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.



## **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item Finding No. 17-001. Our opinion on each major federal program is not modified with respect to this matter.

Worcester Polytechnic Institute's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. Worcester Polytechnic Institute's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.


## **Report on Internal Control Over Compliance**

Management of Worcester Polytechnic Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Worcester Polytechnic Institute internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Worcester Polytechnic Institute's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
PricewaterhouseCoopers LLP  
Hartford, Connecticut  
December 14, 2017

**PART III**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Worcester Polytechnic Institute**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2017**

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued Unmodified

Internal control over financing reporting

    Material weakness(es) identified?  Yes      No

    Significant deficiency(ies) identified that are not  
     considered to be material weakness(es)?  Yes      None Reported

Noncompliance material to financial statements noted?  Yes      No

**Federal Awards**

Internal control over major programs

    Material weakness(es) identified?  Yes      No

    Significant deficiency(ies) identified that are not  
     considered to be material weakness(es)?  Yes      None Reported

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?  Yes

No

Identification of major programs:

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
Various	Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B federal programs \$1,826,116

Auditee qualified as low-risk auditee?  Yes      No

**Worcester Polytechnic Institute**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2017**

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**Section II – Financial Statement Finding**

No findings to report.

**Section III – Federal Awards Findings and Questioned Costs**

**Finding No. 17-001 – Failure to report direct loan disbursement in a timely manner**

**Criteria**

Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the COD within 15 days of disbursement (*OMB No. 1845-0021*).

**Condition**

We selected 25 disbursements to test the timely submission of records to the DLSS via the COD system. We noted that 1 disbursement was not reported within 15 days.

**Cause**

Management failed to submit the records to the DLSS in a timely manner.

**Effect**

The selected disbursement was not reported in a timely manner to the DLSS via the COD system.

**Questioned cost**

There are no questioned costs as the finding pertains to reporting of disbursements to the DLSS.

**Recommendation**

We recommend management ensure all disbursements are reported to the DLSS within the 15 days.

**Views of Responsible Officials and Planned Corrective Action Plan**

See management's views and corrective action plan.

**PART IV**  
**SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS**

**Worcester Polytechnic Institute**  
**Status of Prior Year Audit Findings**  
**Year Ended June 30, 2017**

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**Summary of Status of Prior Year Findings**

**Prior Year Finding No. 16-001**

The University had applied incorrect indirect cost rate to certain federal R&D grants. The total indirect costs overcharge to federal programs of \$61,328 was identified. The overcharge pertained to R&D awards that were proposed in fiscal year 2013 and awarded in fiscal year 2014.

**Status**

All funds related to the overcharge of indirect costs were returned to the respective federal agencies during the fiscal year 2017. In addition, Management has introduced a process to identify and review the indirect cost rates assigned to awards. The Director of Sponsored Programs Accounting receives a daily notification report of all new grants or programs with indirect costs as well as any changes made to existing programs. This report is reviewed and individual grants are examined further when necessary.

**PART V**

**CORRECTIVE ACTION PLAN AND VIEWS OF RESPONSIBLE OFFICIALS**

**Worcester Polytechnic Institute  
Management's Corrective Action Plan  
Year Ended June 30, 2017**

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**Management's Corrective Action Plan**

**Finding No. 17-001 – Failure to report direct loan disbursement in a timely manner**

The University acknowledges that notification to the DLSS via the COD system was delayed when disbursing certain direct loans. The University has since increased staffing levels, implemented new review procedures, and provided additional training to staff within the student financial aid office to address this issue going forward.

**Contact Person**

Patrick Hitchcock, University Controller

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508-831-5577