Worcester Polytechnic Institute

Report on Federal Awards in Accordance with OMB Circular A-133
Year Ended June 30, 2014
Entity Identification Number: 04-2121659

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PART I

FINANCIAL STATEMENTS

Independent Auditor's Report

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, 2014 and June 30, 2013, and the related consolidated statements of activities and of 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 entity'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 entity'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, 2014 and June 30, 2013, and the changes in its net assets and its 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, 2014 is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* 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 10, 2014 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 for the year ended June 30, 2014. 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, CT
November 10, 2014

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

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

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

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

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

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

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

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

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

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

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

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

1. Organization

Worcester Polytechnic Institute (the "University"), founded in 1865, is the nation's third oldest private engineering university. Approximately 5,900 undergraduate and graduate students attend the University annually. The University is located in Worcester, Massachusetts and serves a diverse student body from almost every state and over 80 foreign countries.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

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

Permanently Restricted
Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted
Net assets whose use is restricted by state law or subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to these stipulations or that expire by the passage of time.

Unrestricted
Net assets not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Consolidation

The accompanying consolidated financial statements include the accounts of the University and its wholly owned or controlled subsidiaries as follows.

Newgate Properties, LLC ("Newgate")
Newgate owned and operated an approximately 124,600 square foot life sciences and bioengineering facility located in the Gateway Park area of Worcester. Ownership of the life sciences and bioengineering facility was transferred to Washburn Park, Inc. and Newgate was dissolved as of June 30, 2014.

Gateway Park, LLC ("Gateway")
Gateway owns land located in the Gateway Park area of Worcester.

Washburn Park, Inc. ("Washburn")
Washburn is a not-for-profit corporation that owns and manages a parking garage located in the Gateway Park area of Worcester. During the year end June 30, 2014, the life sciences and bioengineering facility owned by Newgate and land owned by 75 Grove Street, LLC was transferred to Washburn.

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

Lancaster Island, LLC ("Lancaster")
Lancaster owns land located in the Gateway Park area of Worcester and is the lessee of a parcel of land being used for student parking.

Intercompany accounts and transactions have been eliminated.

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

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

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

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

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

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

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

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 also includes certain investments reported using the net asset value per share as determined by investment managers with notice periods for redemption of greater than 90 days.

The University's financial assets and liabilities that are measured at fair value on a recurring basis are classified using the above fair value hierarchy at June 30, 2014 and 2013 as follows (in thousands):

	2014			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Funds held under bond agreements	$ 3,670	$ -	$ -	$ 3,670
Investments				
Cash and cash equivalents	4,452	-	-	4,452
Equity securities	131,860	7,456	-	139,316
Fixed income securities	50,687	265	-	50,952
Commodities	14,060	-	-	14,060
Alternative investments				
Equity funds	-	89,611	57,515	147,126
Fixed income funds	-	9,297	40,121	49,418
Private equity funds	-	-	28,968	28,968
Real estate	-	-	28,524	28,524
Total investments	201,059	106,629	155,128	462,816
Beneficial interest in trusts	-	-	24,500	24,500
Total assets at fair value	$ 204,729	$ 106,629	$ 179,628	$ 490,986
Liabilities				
Interest rate agreements	$ -	$ (3,468)	$ (5,600)	$ (9,068)

	2013			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Funds held under bond agreements	$ 15,780	$ -	$ -	$ 15,780
Investments				
Cash and cash equivalents	3,061	-	-	3,061
Equity securities	115,216	6,305	-	121,521
Fixed income securities	43,001	276	-	43,277
Commodities	9,744	-	-	9,744
Alternative investments				
Equity funds	-	76,098	50,947	127,045
Fixed income funds	-	8,456	43,442	51,898
Private equity funds	-	-	31,758	31,758
Real estate	-	-	28,710	28,710
Total investments	171,022	91,135	154,857	417,014
Beneficial interest in trusts	-	-	22,482	22,482
Total assets at fair value	$ 186,802	$ 91,135	$ 177,339	$ 455,276
Liabilities				
Interest rate agreements	$ -	$ (3,704)	$ (5,565)	$ (9,269)

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

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

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

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

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

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

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

Contributions
Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Promises to give that are scheduled to be received after the fiscal year-end are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions that are expected to be collected after one year are recorded at the present value of estimated future cash flows. The discount rates used range from approximately 0.4% to 2.6%. Amortization of the discount is recorded as additional contribution revenue in the applicable net asset class.

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

The University reports contributions of land, buildings, or equipment as unrestricted support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as unrestricted support provided the long-lived assets are placed in service in the same reporting period, otherwise, the contributions are reported as temporarily restricted support until the assets are acquired and placed in service and then, such amounts are reclassified to unrestricted net assets.

Deferred Financing Costs
Included in prepaid expenses and other assets are deferred financing costs that are being amortized over the life of the related bonds.

For the years ended June 30, 2014 and 2013, deferred financing costs, net totaled approximately $2,709,000 and $2,796,000 respectively. Amortization expense for the years ended June 30, 2014 and 2013 was approximately $87,000 and $74,000, respectively. The estimated amortization expense for deferred financing costs for the next five years is approximately $88,000 annually.

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

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

Gains or losses on investments are reported in the consolidated statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income is recorded in unrestricted net assets unless its use is temporarily or permanently restricted by explicit donor stipulations.

Land, Buildings and Equipment
Land, buildings and equipment are recorded at cost at the date of acquisition or, if received as a gift, at the estimated fair value at the date of the gift. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded. Expenditures for repairs and maintenance are charged to expense as incurred. Library books are expensed as incurred due to their short-term life and low cost per volume.

Depreciation expense is computed on a straight-line basis over the estimated useful lives using a half-year convention beginning in the year of acquisition or capitalization of construction in progress. Estimated useful lives are periodically reviewed and, when appropriate, changes are made prospectively. When certain events or changes in operating conditions occur, asset lives may be adjusted and an impairment assessment may be performed on the recoverability of the carrying amounts.

Useful lives are as follows:

Land improvements	10 to 20 years
Buildings and improvements	20 to 40 years
Equipment	3 to 10 years

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

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

Split-Interest Agreements
The University is a recipient of funds under perpetual trust and irrevocable split-interest agreements, the income on which may be restricted by the donor. Amounts held by third-party trustees in perpetuity for the benefit of the University are reported at their fair value. Under the terms of these agreements, the University has the irrevocable right to its share of the income earned on the trust assets. Amounts received under split-interest agreements, including charitable gift annuities, charitable lead trusts, charitable remainder trusts, and pooled income arrangements, may be invested by the University or third-party trustees, and at the end of each agreement's term are distributed either to the University or other beneficiaries. Annual distributions to beneficiaries may be for a specified dollar amount or a percentage of the trust's fair value. Upon receipt, gifts requiring the University or trustee to pay donors a specified periodic amount are recorded at fair value with corresponding estimated liabilities for future amounts payable to other beneficiaries, where applicable. The liabilities associated with these gifts are adjusted during the term of these gift instruments. The University is aware of certain split-interest arrangements in which it has been named as beneficiary and has adopted a policy that until such

amounts are estimable and probable, such amounts are not recognized in the financial statements. The present value of payments to beneficiaries under split-interest arrangements is calculated using discount rates in effect at the date of the gift; these rates range from approximately 1.2% to 11.6%.

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

During the years ended June 30, 2014 and 2013, the estimate to decommission a nuclear reactor was revised and the associated ARO liability was reduced by approximately $130,000 and $868,000, respectively. The adjustment reduced operating expenses and has been recorded in operation and maintenance of plant in the consolidated statement of activities.

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

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

3. Accounts Receivable

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

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

4. Contributions Receivable

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

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

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

5. Student Loans Receivable

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

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

	2014			2013		
	Federal Government Programs	Institutional Programs	Total	Federal Government Programs	Institutional Programs	Total
Student loans receivable	$ 12,448	$ 11,620	$ 24,068	$ 12,376	$ 11,936	$ 24,312
Less allowance for doubtful accounts:						
Beginning of year	(566)	(254)	(820)	(570)	(266)	(836)
Decreases (increases)	(90)	(209)	(299)	4	(76)	(72)
Write-offs	-	158	158	-	88	88
End of year	(656)	(305)	(961)	(566)	(254)	(820)
Student loans receivable, net	$ 11,792	$ 11,315	$ 23,107	$ 11,810	$ 11,682	$ 23,492

The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $6,792,000 at June 30, 2014 and 2013 are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan.

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

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

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

6. Investments

Investments at June 30, 2014 are as follows (comparative totals are included for 2013) (in thousands):

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

Fair values of equity, fixed income and commodity securities are generally based on published market values. The University invests in hedge funds, private equity, and real estate investments through various limited partnerships and similar vehicles. Hedge funds utilize a variety of investment strategies incorporating marketable securities and, in some cases, derivative instruments, all of which are reported at estimated fair value by the fund managers. Private equity funds consist of long-term private investments and have been valued based on estimates provided by the general partners of the investment vehicles. The University has utilized the net asset value ("NAV") provided by the fund managers or general partners in valuing such investments. Estimates of fair value may differ significantly from values that would have been used had a ready market for the investments existed.

Real estate consists mainly of direct real estate holdings and investments in privately held entities. The fair values of the real estate investments in privately held entities have been valued based on the NAV provided by the fund managers of these investment vehicles. The fair values of direct real estate holdings have been prepared giving consideration to periodic independent external appraisers, as well as the income, cost and sales comparison approaches of estimating property value. The income approach estimates an income stream for a property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. A second technique is the direct capitalization analysis. Direct capitalization involves capitalizing a property's first year, or stabilized net operating income in to a value estimate. Yield rates and growth assumptions utilized in both approaches are derived from market transactions as well as other financial and industry data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. Generally,

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

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

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

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

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

NA = not applicable

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

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

NA = not applicable

Endowment Income and Spending

In addition to current yield (interest, dividends, and net rental income), the University has interpreted state law to allow for the utilization of capital appreciation on permanently restricted endowment funds unless explicit donor stipulations specify how net appreciation must be used. Accordingly, the University segregates capital appreciation between that which can be used for current operations and that which is attributable to permanently restricted endowment funds. For financial reporting purposes, current yield and capital appreciation attributed to permanently restricted endowment funds are considered temporarily restricted until appropriated for use, and the historic dollar value of such funds is considered permanently restricted.

On July 2, 2009, Massachusetts enacted its Uniform Prudent Management of Institutional Funds Act ("UPMIFA") statute. UPMIFA provides guidance for investment management; enumerates guidelines in prudent investing; and, eliminates the concept of "historic dollar value" for donor-restricted endowments. The University adopted UPMIFA during the year ended June 30, 2010 and has not limited appropriation of underwater funds to current yield. Appropriation on underwater funds in years prior to adoption had been limited to current yield until such time as the deficiency had been restored and the fair value of the fund exceeded the level required to be retained permanently.

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

Asset Allocation Policy	Target %
Domestic equity	20
International equity	17
Private equity	8
Flexible capital	25
Fixed income	12
Real assets	18

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

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

Investment income is net of investment management fees of approximately $516,000 and $390,000 for the years ended June 30, 2014 and 2013, respectively.

The University observes a spending rule with respect to total return (interest, dividends and appreciation) on investments of the endowment and similar funds. Under the spending rule, the University appropriated 5.0% and 5.2% of its endowment and similar funds' average unit fair value for the previous three years, one year removed, for the years ended June 30, 2014 and 2013, respectively.

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

A summary of the fair value per unit and the income per time-weighted unit for the pooled investments held as of June 30, 2014 and in each of the prior four years is as follows:

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

To the extent that accumulated realized and unrealized losses are in excess of accumulated gains for permanently restricted endowment funds, they are reported as decreases in unrestricted net assets. As a result of market declines, the fair value of certain permanently restricted endowment funds is less than the historic dollar value of such funds ("underwater funds") by approximately $733,000 and $1,626,000 at June 30, 2014 and 2013, respectively, and have been offset by transfers from unrestricted net assets to temporarily restricted net assets. The University is under no legal obligation to fund the deficiency.

Endowment and Similar Funds

The endowment and similar funds' net asset composition as of June 30, 2014 and 2013 and the changes for the years then ended are as follows (in thousands):

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

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

Split-Interest Agreements

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

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

7. Land, Buildings and Equipment

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

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

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

8. Bonds and Notes Payable

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

Purpose and Definition	Maturity Date	Interest Rate %	Original Issue	Amount Due Within One Year	Balance, June 30, 2014	Balance, June 30, 2013
Bonds payable						
Housing and Urban Development 1969 Series C (1)	4/1/2019	3.0	$ 1,160	40	$ 207	$ 247
Massachusetts Development Finance Agency 2007 Series (2)	9/1/2047	4.0-5.0	81,915	1,900	77,723	79,473
Massachusetts Development Finance Agency 2008 Series A & B (3)	9/1/2035	Variable	54,815	1,745	50,060	51,805
Massachusetts Development Finance Agency 2010 Series (4)	9/1/2045	4.5-5.0	56,000	-	56,064	56,066
Massachusetts Development Finance Agency 2012 Series (5)	9/1/2050	3.68-4.05	42,540	-	43,327	43,348
Uncollateralized notes						
TD Bank	7/1/2023	Variable	7,122	356	6,825	7,143
Worcester Business Development Corp.	9/1/2014	5.0	1,766	66	66	452
Capital lease obligations	Various	Various		911	2,540	2,064
Total bonds and notes payable				$ 5,018	$ 236,812	$ 240,598

(1) Collateralized by land, building and equipment known as Stoddard Residence Center and pledged net revenues from the operations of the dormitory.

(2) The bonds represent a general obligation of the University. The balances at June 30, 2014 and 2013 include a premium of approximately $1,813,000 and $1,868,000, respectively.

(3) The bonds, issued at par with no discount or premium, represent a general obligation of the University.

(4) The bonds represent a general obligation of the University. The balances at June 30, 2014 and 2013 include a premium of approximately $64,000 and $66,000, respectively.

(5) The bonds represent a general obligation of the University. The balances at June 30, 2014 and 2013 include a premium of approximately $787,000 and $808,000, respectively.

In compliance with the University's various bond indentures, funds held under bond agreements at June 30, 2014 and 2013 include investments of approximately $3,670,000 and $15,780,000, respectively, held for construction and debt service reserves.

The fair value of the University's debt has been calculated by determining the net present value of future cash outlays using an interest rate based on the length of time to maturity. The rates were based upon market conditions as of June 30, 2014 and 2013 and the University's credit risk as of June 30, 2014 and 2013. The estimated fair value at June 30, 2014 and 2013 is approximately $262,687,000 and $240,615,000, respectively, and would be classified as Level 2 using the fair value hierarchy.

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

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

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

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

In January 2010, the University borrowed $56,000,000 in the form of MDFA Revenue Bond Series 2010 (the "2010 Bonds"). The proceeds from the issue are being used to finance the construction, furnishing and equipping of an approximately 140,000 square foot sports and recreation facility and other renovations, repairs and improvements to campus facilities. The 2010 Bonds are fixed rate bonds payable in annual installments with principal payments ranging from $915,000 to $6,990,000 beginning September 1, 2034, and interest ranging from 4.5% to 5.0%. The final maturity is September 1, 2045.

In April 2008, the University borrowed $54,815,000 in the form of MDFA Variable Rate Demand Revenue Bonds Series 2008A (tax-exempt) and 2008B (federally taxable), (the "2008 Bonds"). The proceeds from the issues were used to refund the University's borrowings under the MDFA Revenue Bonds, Series 2005A (tax-exempt) and 2005B (federally taxable) Select Auction Variable Rate Securities (the "2005 Bonds"), and the MDFA Revenue Bonds, Series 2003A Select Auction Variable Rate Securities (the "2003 Bonds"), and to pay the costs of issuance. The 2008 Bonds are payable in semiannual installments with principal payments ranging from $360,000 to $2,915,000, with a final maturity of September 1, 2035. Interest on the 2008 Bonds is at a variable rate which is reset on a weekly basis. The interest rates at June 30, 2014 for the 2008A and 2008B Bonds were 0.06% and 0.12%, respectively. At June 30, 2013, the rates were 0.06% and 0.18%, respectively. The interest rate swap agreements entered into as an integral part of the 2005 and 2003 Bonds remain in effect to economically hedge the interest rate risks associated with the 2008 Bonds.

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

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

In June 2007, the University borrowed $81,915,000 in the form of MDFA Revenue Bonds, Worcester Polytechnic Institute, Series 2007, (the “2007 Bonds”). The 2007 Bonds are fixed rate bonds payable in semiannual installments with principal payments ranging from $100,000 to $3,105,000, and interest ranging from 4.0% to 5.0%. The final maturity is September 1, 2047.

The University also has a $25,000,000 bank revolving line of credit. The line of credit bears interest at LIBOR plus 0.95% per annum on outstanding amounts. There were no amounts outstanding at June 30, 2014 and 2013.

9. Interest Rate Agreements

The University has entered into several interest rate swap agreements used to economically hedge the interest rate risk associated with certain of its variable rate debt. The following summarizes the terms for each of these agreements as of June 30, 2014 (dollars in thousands):

	Series 2008 A&B		
	Deutsche Bank AG	**Barclays Bank PLC**	**Barclays Bank PLC**
Trade/effective date	Nov. 3, 2008	Nov. 3, 2008	Nov. 3, 2008
Initial notional amount	$14,100	$34,200	$5,775
Termination date	Oct. 1, 2033	Sept. 1, 2035	Sept. 1, 2016
Rate paid by University	4.650%	3.714%	4.631%
Rate paid by Counterparty	71% of one-month LIBOR	67% of one-month LIBOR when LIBOR is ≥ 4.00% SIFMA Municipal Swap Index when LIBOR is < 4.00%	one-month LIBOR

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

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

The interest rate swap agreements contain provisions requiring collateral postings should the fair value liability of the University exceed certain amounts based on the University's long term credit ratings. The collateral posting provision for the agreement with Deutsche Bank AG is triggered should the fair value liability exceed $40 million and the University's long term credit rating remains at A1/A+. The collateral posting provision for the two agreements with Barclays Bank PLC is triggered should the combined fair value liability exceed $40 million and the University's long term credit rating declines to A2/A. At its current ratings level of A1/A+, no amount of fair value liability will trigger a posting requirement for the Barclays Bank PLC agreements. The provisions with both counterparties provide that the liability threshold decreases if the University's long term credit ratings decline. At June 30, 2014, the University is not required to post collateral to its counterparties.

10. Retirement Plan

The University participates in a defined contribution retirement plan for substantially all of its employees. Employees may elect to invest in various accounts with the Teachers' Insurance and Annuity Association and College Retirement Equities Fund ("TIAA-CREF"), Fidelity Investments, or a combination of both. Contributions were approximately $7,123,000 and $6,734,000 for the years ended June 30, 2014 and 2013, respectively. Contributions are based upon a percentage of the employees' compensation.

11. Net Assets

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

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds				
Long-term investment (quasi-endowment)	$ 183,556	$ -	$ -	$ 183,556
Original principal	-	-	129,696	129,696
Unspent income and appreciation				
Scholarship support	-	59,519	-	59,519
Faculty support	-	14,226	-	14,226
Program support	-	29,210	-	29,210
Total endowment funds	183,556	102,955	129,696	416,207
Split-interest agreements and perpetual trusts	-	8,251	25,364	33,615
Student loan funds	13,101		3,709	16,810
Gifts and other unexpended revenues				
Acquisition of building and equipment	-	5,751	-	5,751
Instruction, research, and institutional support	-	4,814	-	4,814
Undesignated	85,552	-	-	85,552
	$ 282,209	$ 121,771	$ 158,769	$ 562,749

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds				
Long-term investment (quasi-endowment)	$ 163,829	$ -	$ -	$ 163,829
Original principal	-	-	124,598	124,598
Unspent income and appreciation				
Scholarship support	-	47,538	-	47,538
Faculty support	-	11,941	-	11,941
Program support	-	24,266	-	24,266
Total endowment funds	163,829	83,745	124,598	372,172
Split-interest agreements and perpetual trusts	-	7,460	23,393	30,853
Student loan funds	12,681	-	3,554	16,235
Gifts and other unexpended revenues				
Acquisition of building and equipment	-	5,231	-	5,231
Instruction, research, and institutional support	-	5,968	-	5,968
Undesignated	79,768	-	-	79,768
	$ 256,278	$ 102,404	$ 151,545	$ 510,227

12. Expenses by Functional Category

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

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

13. Reclassification of Prior Year Amounts

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

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

14. Related Parties

Prescott Holdings, LLC ("Prescott Holdings")
Prescott Holdings was formed to develop land in the Gateway Park area of Worcester. The University has a 12.5% interest and accounts for its investment at cost.

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

Alumni Association of Worcester Polytechnic Institute ("Alumni Association")
The Alumni Association, a separate 501(c)(3) organization, invests the majority of its funds in the University's endowment. At June 30, 2014 and 2013, funds held for others in the consolidated statements of financial position include Alumni Association assets of $2,774,000 and $2,450,000, respectively.

15. Commitments and Contingencies

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

Investments
The University is obligated under certain limited partnership agreements and other alternative investment arrangements to advance additional funding periodically up to specified levels. At June 30, 2014, the University had unfunded commitments of approximately $28,959,000 that can be called through fiscal year 2021. These commitments will be funded from the University's existing cash and investments.

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

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

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

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

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

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

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

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

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

16. Subsequent Events

Management has evaluated subsequent events for the period after June 30, 2014 through November 10, 2014, the date the financial statements were posted to the University's website and determined that there have been no subsequent events that would require recognition in the financial statements or disclosure in the notes of the financial statements.

Worcester Polytechnic Institute
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

FY 2014 Federal Schedule of Expenditures

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
STUDENT FINANCIAL AID CLUSTER			
U.S. Department of Education			
Federal Pell Grant Program	84.063		$ 2,481,374
Federal Supplemental Educational Opportunity Grants	84.007		415,876
Federal Work Study Program	84.033		399,049
Federal Perkins Loan Program-Admin Allowance	84.038		84,060
Total Student Financial Aid			**3,380,359**
RESEARCH AND DEVELOPMENT CLUSTER			
Department of Agriculture			
Agriculture and Food Research Initiative	10.310		82,282
Total Department of Agriculture			**82,282**
Department of Commerce			
National Institute of Standards and Technology			
Measurement and Engineering Research and Standards	11.609		29,620
Total Department of Commerce			**29,620**
Department of Defense			
Defense Advanced Research Projects Agency			
Research and Technology Development	12.910		773,875
Pass-Through Programs From			
University of Pennsylvania	12.	557090/HR0011-11-C-0096	10,300
Total Defense Advanced Research Projects Agency			**784,175**
Defense Logistics Agency			
Pass-Through Programs From			
Advanced Technology Institute	12.	2012-531/SP4701-11-D-0025	13,678
Total Logistics Agency			**13,678**
Department of the Air Force			
Air Force Defense Research Sciences Program	12.800		224,203
Pass-Through Programs From			
Massachusetts Institute of Technology Lincoln Laboratories	12.	7000180184	(872)
LoadPath	12.	1307	92,913
Total Department of the Air Force			**316,244**
Department of the Army			
Department of the Army Direct Programs	12.		2,131,071
Basic and Applied Scientific Research	12.300		68,533
Military Medical Research and Development	12.420		1,042,414
Pass-Through Programs From			
University of Utah	12.420	10018797/W23RYX1067N604	376,218
Total Department of the Army			**3,618,236**
Department of the Navy			
Basic and Applied Scientific Research	12.300		813,299
Pass-Through Programs From			
Drexel University	12.630	204111WPI	126,179
Agiltron, Inc.	12.	N12A-T021	438
Leidos, Inc.	12.	PO1013502	38,496
University of Massachusetts Amherst	12.	13-007563	400,960
Total Department of the Navy			**1,379,372**

The accompanying notes are an integral part of this schedule.

Worcester Polytechnic Institute
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
National Security Agency Direct Programs			
Mathematical Sciences Grants Program	12.901		35,136
Total National Security Agency			**35,136**
Total Department of Defense			**6,146,841**
Department of Education			
Education Research, Development and Dissemination	84.305		408,172
Pass-Through Programs From			
SRI International	84.305	128-000013	277,986
West Ed	84.305	6255S10-047/R305C100024	91,196
Total Department of Education			**777,354**
Department of Energy			
Office of Science Financial Assistance Program	81.049		118,039
Fossil Energy Research and Development	81.089		703,745
Pass-Through Programs From			
Aerodyne Research, Inc	81.049	ARI 10924-1	65,489
Busek Company, Inc.	81.049	287-SUB1/DE-SC0004199	81,841
ARRA - Premium Power Corporation	81.122	DE-OE0000224-WPI	71,332
Argonne National Laboratory	81.	4F-30361	22,352
UT-Battelle LLC	81.	4000123499	21,925
Total Department of Energy			**1,084,723**
Department of Health and Human Services			
Research and Training in Complementary and Alternative Medicine	93.213		21,296
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		206,787
Trans-NIH Research Support	93.310		294,815
Cancer Detection and Diagnosis Research	93.394		227,027
Cardiovascular Diseases Research	93.837		437,775
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		205,817
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		32,633
Biomedical Research and Research Training	93.859		68,301
Pass-Through Programs From			
Hospital for Special Surgery	93.121	1R221DE022716-01	75,836
Massachusetts Eye and Ear Infirmary	93.173	30415/R01DC008642-04	194,539
UMass Medical School	93.286	6122560/RFS2011027	76,762
Brigham & Women's Hospital	93.394	107351/2R01CA111288-06	157,315
Boston Children's Hospital	93.837	305618/R01HL089269	57,784
UMass Medical School	93.847	1-R21-DK098556-01	21,977
Pennsylvania State University	93.859	4840-WPI-DHHS-0076	68,976
Total Department of Health and Human Services			**2,147,640**
Department of Homeland Security			
Assistance to Firefighters Grant	97.044		576,710
Pass-Through Programs From			
CFAI-Risk, Inc.	97.04	CFAI-RISK-04-2011	(1,815)
Innova Designs	97.	HSHQDC-13-C00041	29,894
UT-Batelle LLC.	97.	4000129186	36,985
Total Department of Homeland Security			**641,774**

The accompanying notes are an integral part of this schedule.

Worcester Polytechnic Institute
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
Department of Interior			
US Department of Interior	15.		162,404
Total Department of Interior			**162,404**
Department of Justice			
Pass-Through Programs From			
Clark University	16.525	2P002-7533/2009-WA-AX-0012	9,652
Total Department of Justice			**9,652**
Department of Transportation			
Pass-Through Programs From			
Maine Deptartment of Transportation	20.	20100405000000005065	1,373
Maine Deptartment of Transportation	20.	20140327000000000540	30,412
University of New Hampshire	20.	14-051/DTFH61-13-C-00022	17,081
Total Department of Transportation			**48,866**
Department of Veterans Affairs			
Department of Veterans Affairs Direct Programs	64.		326,945
Total Department of Veterans Affairs			**326,945**
Environmental Protection Agency			
P3 Award: National Student Design Competition for Sustainability	66.516		14,965
Total Environmental Protection Agency			**14,965**
National Aeronautics and Space Administration			
Space Operations	43.007		77,120
Pass-Through Programs From			
Autonomous Exploration, Inc.	43.	NNXX11CA57C	11,112
Total National Aeronautics and Space Administration			**88,232**
National Science Foundation			
Engineering Grants	47.041		1,257,558
Mathematical and Physical Sciences	47.049		1,297,946
Computer and Information Science and Engineering	47.070		2,630,785
Biological Sciences	47.074		179,618
Social, Behavioral, and Economic Sciences	47.075		75,646
Education and Human Resources	47.076		1,310,554
International Science and Engineering (OISE)	47.079		17,081
ARRA - Trans-NSF Recovery Act Research Support	47.082		83,128
Pass-Through Programs From			
Novarials Corporation	47.041	SBIR IIP-1315342	30,367
University of New Hampshire	47.041	13-023/1152771	28,172
University of New Hampshire	47.041	13022/1159662	38,253
Columbia University	47.070	1252297	1,354
Dartmouth College	47.074	985/NCB-1158229	20,175
Carnegie Mellon University	47.076	1121255-235957/DRL0910188	(159)
Harrisburg University of Science and Technology	47.076	11224488	99
Stevens Institute of Technology	47.076	ENGAGE	2,000
University of Massachusetts Amherst	47.076	UM#06-003554 B01	(432)
University of Massachusetts Amherst	47.076	12-006782 E 00/HRD-1102489	68,195
University of Illinois-Chicago	47.076	2013-03309/DRL-1316736	3,611
Total National Science Foundation			**7,043,951**
Total Research and Development Cluster			**18,605,249**

The accompanying notes are an integral part of this schedule.

Worcester Polytechnic Institute
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
OTHER PROGRAMS			
Department of Commerce			
National Institute for Standards and Technology			
Measurement and Engineering Research and Standards	11.609		6,900
Total Department of Commerce			**6,900**
Department of Defense			
Department of the Air Force			
Pass-Through Programs From			
Massachusetts Institute of Technology Lincoln Laboratory	12.	7000204356	65,660
Total Department of Air Force			**65,660**
Department of the Army			
Department of the Army Direct Programs	12.		266,626
Total Department of Army			**266,626**
Total Department of Defense			**332,286**
Department of Education			
Undergraduate International Studies and Foreign Language	84.016		70,810
Graduate Assistance in Areas of National Need	84.200		225,898
Total Department of Education			**296,708**
Department of Health and Human Services			
National Institutes of Health			
Orders Diseases and Disorders Research (B)	93.121		34,607
Total Department of Health and Human Services			**34,607**
Department of State			
One-Time International Exchange Grant Program	19.014		60,038
Total Department of State			**60,038**
Institute of Museum and Library Services			
Pass-Through Programs From			
Ecotarium	45.307	MP-0011-0049-11	5,847
Total Institute of Museum and Library Services			**5,847**
National Aeronautics and Space Administration			
Pass-Through Programs From			
National Institute of Aerospace	43.	ROBO-OPS	368
Total National Aeronautics and Space Administration			**368**
National Endowment for the Arts			
Promotion of the Arts_Grants to Organizations and Individuals	45.024		707
Total National Endowment for the Arts			**707**
National Endowment for the Humanities			
Promotion of the Humanities-Division of Preservation and Access	45.149		300,000
Total National Endowment for the Arts			**300,000**
Total Other Programs			**1,037,461**
Total Expenditures of Federal Awards			**$ 23,023,069**

The accompanying notes are an integral part of this schedule.

Worcester Polytechnic Institute
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

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, 2014 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. 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 where available) on the Schedule. CFDA numbers are presented where available.

2. Administrative Cost Allowance

The University received $138,344 of administrative cost allowances of which $27,725 and $26,559 pertain to Federal Supplemental Educational Opportunity Grants and Federal Work Study, respectively, (including $84,060 for the Perkins Loan Program) from the Department of Education for its use in administering student financial assistance programs. This amount is included in amounts reported as expenditures under the applicable U.S. Department of Education programs on the Schedule.

3. Subrecipient Awards

Certain federal funds are received by the University and passed through to subrecipient organizations. Of the federal expenditures presented in the Schedule, the University passed through the following amounts:

	CFDA#		Amount
Research & Development Cluster:			
Total Research and Development Cluster	Various	$	2,529,320
Total Federal Subrecipient Awards		$	2,529,320

4. Indirect Costs

On February 10, 2014, the University received approval to use a predetermined indirect cost rate of 57% of modified total direct costs effective from July 1, 2013 through June 30, 2017.

5. Federal Student Loan Programs

The University processed $1,681,197 of new loans under the Perkins Loan Program (CFDA # 84.038) for the year ended June 30, 2014. The new loans were funded by repayments of previously issued Perkins Loans. The balance of Perkins Loans outstanding at June 30, 2014 was $12,447,944. The amount of Perkins loan principal cancelled was $5,288.

In addition, the University processed $25,154,579 of loans under the William D. Ford Federal Direct Stafford Loan Program (CFDA 84.032) for the year ended June 30, 2014.

PART II

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

Independent Auditor's Report 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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Worcester Polytechnic Institute as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Worcester Polytechnic Institute's basic financial statements, and have issued our report thereon dated November 10, 2014.

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 opinions 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

PricewaterhouseCoopers LLP

Hartford, CT
November 10, 2014

Independent Auditor's Report 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 OMB Circular A-133

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 Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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's 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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Hartford, CT
March 24, 2015

PART III

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Worcester Polytechnic Institute
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

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 _X_ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___yes _X_ none reported

Noncompliance material to financial statements noted? ___yes _X_ no

Federal Awards

Internal control over major programs

- Material weakness (es) identified? ___yes _X_ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___yes _X_ 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 section 510(a) of Circular A-133? ___yes _X_ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
Various	Student Financial Aid Cluster
45.149	Creating a Sustainable Environment to Preserve Access to Humanities, Innovation, and STEM Education Collections at WPI

Dollar threshold used to distinguish between type A and type B federal programs: $1,822,460

Auditee qualified as low-risk auditee? _X_ yes ___ no

Worcester Polytechnic Institute
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section II – Financial Statement Findings

No instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards* were identified.

Section III – Federal Awards Findings and Questioned Costs

None noted.

PART IV

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Worcester Polytechnic Institute
Schedule of Status of Prior Audit Findings
Year Ended June 30, 2014

Prior Year Findings

There are no findings from prior years that require an update in this report.