

# **Worcester Polytechnic Institute**

**Report on Federal Awards in Accordance with  
OMB Circular A-133**

**Year Ended June 30, 2015**

**Entity Identification Number: 04-21216594**

	<b>Page(s)</b>
<b>I. FINANCIAL STATEMENTS</b>	
Independent Auditor's Report .....	1-2
Worcester Polytechnic Institute Consolidated Financial Statements.....	3-30
Schedule of Expenditure of Federal Awards.....	31-35
Notes to Schedule of Expenditure of Federal Awards .....	36
<b>II. REPORTS ON INTERNAL CONTROLS AND COMPLIANCE</b>	
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 <i>Government Auditing Standards</i> .....	37-38
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.....	39-40
<b>III. SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....</b>	<b>41-42</b>
<b>IV. SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS.....</b>	<b>43</b>

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



## Independent Auditor's Report

To the Board of Trustees of  
Worcester Polytechnic Institute

We have audited the accompanying consolidated financial statements of Worcester Polytechnic Institute, which comprise the consolidated statement of financial position as of June 30, 2015 and June 30, 2014, 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 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 opinions.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Worcester Polytechnic Institute and its subsidiaries at June 30, 2015 and June 30, 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2015 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 6, 2015 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, 2015. 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Worcester Polytechnic Institute and its subsidiaries at June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Hartford, CT  
November 6, 2015

**Worcester Polytechnic Institute**  
**Consolidated Statements of Financial Position**  
**June 30, 2015 and 2014 (in thousands)**

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	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$ 23,722	\$ 18,099
Accounts receivable, net	10,120	7,580
Contributions receivable, net	8,767	7,364
Funds held under bond agreements	3,794	3,670
Prepaid expenses and other assets	9,349	8,483
Student loans receivable, net	22,116	23,107
Beneficial interest in trusts	26,483	24,500
Investments	463,447	462,816
Land, buildings and equipment, net	<u>305,038</u>	<u>307,916</u>
Total assets	<u>\$ 872,836</u>	<u>\$ 863,535</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	24,829	21,914
Deposits and deferred revenue	10,351	9,987
Split-interest agreements	9,774	10,515
Funds held for others	3,881	3,746
Asset retirement obligations	2,374	1,952
Refundable government loan funds	9,015	8,942
Bonds and notes payable	236,131	236,812
Interest rate agreements	<u>9,599</u>	<u>9,068</u>
Total liabilities	<u>305,954</u>	<u>302,936</u>
<b>Net assets</b>		
Unrestricted	276,043	280,059
Temporarily restricted	118,775	121,771
Permanently restricted	<u>172,064</u>	<u>158,769</u>
Total net assets	<u>566,882</u>	<u>560,599</u>
Total liabilities and net assets	<u>\$ 872,836</u>	<u>\$ 863,535</u>

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues</b>				
Tuition and fees	\$ 217,181	\$ -	\$ -	\$ 217,181
Less: Unrestricted student aid	64,805	-	-	64,805
Endow ed scholarships	6,166	-	-	6,166
Externally funded student aid	2,075	-	-	2,075
Total student aid	73,046	-	-	73,046
Net tuition and fees	144,135	-	-	144,135
Other educational activities	2,594	-	-	2,594
Contributions	3,712	7,204	-	10,916
Contract and exchange transactions	34,247	-	-	34,247
Investment income on endow ment and similar funds	1,967	26	74	2,067
Net realized gains on endow ment used for operations	7,453	7,717	-	15,170
Other investment income	1,958	523	71	2,552
Sales and services of auxiliary enterprises	27,212	-	-	27,212
Other	2,999	-	(146)	2,853
Total revenues	226,277	15,470	(1)	241,746
Net assets released from restriction	12,951	(12,951)	-	-
Total revenues and other support	239,228	2,519	(1)	241,746
<b>Operating expenses</b>				
Instruction and department research	101,335	-	-	101,335
Sponsored research and other sponsored programs	27,957	-	-	27,957
External relations	9,735	-	-	9,735
Institution and academic support	45,661	-	-	45,661
Student services	22,980	-	-	22,980
Auxiliary enterprises	26,821	-	-	26,821
Total operating expenses	234,489	-	-	234,489
Change in net assets from operating activities	4,739	2,519	(1)	7,257
<b>Nonoperating</b>				
Net realized and unrealized gains and losses on investments	1,886	(581)	-	1,305
Net realized gains on endow ment used for operations	(7,453)	(7,717)	-	(15,170)
Increase in provision for underw ater funds	(264)	264	-	-
Net unrealized gains on beneficial interest in trusts	-	203	1,033	1,236
Change in value of split-interest agreements	(466)	220	10	(236)
Contributions	-	2,096	12,253	14,349
Net realized and unrealized losses on interest rate agreements	(2,458)	-	-	(2,458)
Change in net assets from nonoperating activities	(8,755)	(5,515)	13,296	(974)
Total change in net assets	(4,016)	(2,996)	13,295	6,283
Net assets, beginning of year	280,059	121,771	158,769	560,599
Net assets, end of year	\$ 276,043	\$ 118,775	\$ 172,064	\$ 566,882

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues</b>				
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	1,941	502	81	2,524
Sales and services of auxiliary enterprises	26,204	-	-	26,204
Other	2,635	-	-	2,635
Total revenues	208,728	9,653	154	218,535
Net assets released from restriction	11,724	(11,724)	-	-
Total revenues and other support	220,452	(2,071)	154	218,535
<b>Operating expenses</b>				
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	39,225	-	-	39,225
Student services	21,023	-	-	21,023
Auxiliary enterprises	24,713	-	-	24,713
Total operating expenses	213,172	-	-	213,172
Change in net assets from operating activities	7,280	(2,071)	154	5,363
<b>Nonoperating</b>				
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	25,879	19,367	7,224	52,470
Net assets, beginning of year, as previously reported	256,278	102,404	151,545	510,227
Revision of prior year amounts (see Note 13)	(2,098)	-	-	(2,098)
Net assets, beginning of year, as revised	254,180	102,404	151,545	508,129
Net assets, end of year	\$ 280,059	\$ 121,771	\$ 158,769	\$ 560,599

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



**Worcester Polytechnic Institute**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2015 and 2014 (in thousands)**

	2015	2014
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 6,283	\$ 52,470
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	20,876	19,768
Provision for uncollectible receivables	527	1,006
Loss on disposals of land, buildings, and equipment	332	-
Net realized and unrealized gains on investments	(2,550)	(57,245)
Net unrealized losses on interest rate agreements	2,458	1,776
Contributions other than cash	(3,032)	(4,537)
Contributions restricted for long-term investment	(13,401)	(5,823)
Proceeds from sale of donated securities	1,334	2,903
Changes in assets and liabilities:		
Accounts receivable	(2,824)	891
Contributions receivable	(3,323)	1,157
Prepaid expenses and other assets	(989)	(1,808)
Accounts payable and accrued liabilities	1,863	1,197
Deposits and deferred revenue	434	937
Split-interest agreements	568	(722)
Funds held for others	226	(180)
Asset retirement obligations	98	(495)
Refundable government loan funds	73	52
Total adjustments	2,670	(41,123)
Net cash provided by operating activities	8,953	11,347
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	66,654	36,500
Purchase of investments	(65,932)	(25,334)
Proceeds from bonds deposited with trustees	(2,721)	-
Purchase of land, buildings, and equipment	(16,059)	(31,971)
Use of funds held under bond agreements	2,597	12,110
Disbursement of loans to students	(3,313)	(3,593)
Repayment of loans from students	4,223	3,679
Net cash used in investing activities	(14,551)	(8,609)
<b>Cash flows from financing activities</b>		
Contributions restricted for long-term investment	14,446	6,449
Deferred financing costs	88	-
Realized loss on interest rate agreements	(1,927)	(1,999)
Proceeds from long-term debt	3,775	-
Repayment of long-term debt	(5,161)	(4,985)
Net cash provided by (used in) by financing activities	11,221	(535)
Net increase in cash and cash equivalents	5,623	2,203
Cash and cash equivalents at beginning of year	18,099	15,896
Cash and cash equivalents at end of year	\$ 23,722	\$ 18,099
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 8,624	\$ 8,705
Contributed securities	\$ 2,912	\$ 3,856
Gifts-in-kind	\$ 120	\$ 691
Purchases of buildings and equipment included in accounts payable	\$ 3,278	\$ 2,008
Leased equipment	\$ 783	\$ 1,277
Refinancing of debt	\$ -	\$ 7,122

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

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2015 and 2014

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#### 1. Organization

Worcester Polytechnic Institute (the “University”), founded in 1865, is the nation’s third oldest private technological university. Approximately 6,000 undergraduate and graduate students attend the University annually. The University is located in Worcester, Massachusetts and serves a diverse student body from almost every state and over 80 foreign countries.

#### 2. Summary of Significant Accounting Policies

##### **Basis of Financial Statement Presentation**

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

##### *Permanently Restricted*

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

##### *Temporarily Restricted*

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

##### *Unrestricted*

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

##### **Consolidation**

The accompanying consolidated financial statements include the accounts of the University and its wholly owned or controlled subsidiaries described below. Intercompany accounts and transactions have been eliminated.

##### **Washburn Park, Inc. (“Washburn”)**

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

##### **Gateway Park, LLC (“Gateway”)**

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

##### **Lancaster Island, LLC (“Lancaster”)**

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

##### **75 Grove Street, LLC (“Grove Street”)**

Grove Street owned a parcel of land being used for the construction of Faraday Hall, a residence hall completed in August 2014. Ownership of the land was transferred to Washburn and Grove Street was dissolved as of June 30, 2014.

# **Worcester Polytechnic Institute**

## **Notes to Consolidated Financial Statements**

### **June 30, 2015 and 2014**

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#### **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.

#### **Classifications**

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

#### **Operating and Nonoperating Activities**

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

#### **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.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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

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

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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, 2015 and 2014 as follows (in thousands):

<b>2015</b>				
<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Funds held under bond agreements	\$ 3,794	\$ -	\$ -	\$ 3,794
Investments				
Cash and cash equivalents	3,830	-	-	3,830
Equity securities	121,871	7,255	-	129,126
Fixed income securities	68,478	254	-	68,732
Commodities	10,613	-	-	10,613
Alternative investments				
Equity funds	-	89,951	55,346	145,297
Fixed income funds	-	12,378	34,896	47,274
Private equity funds	-	-	28,224	28,224
Real estate	-	-	30,351	30,351
Total investments	204,792	109,838	148,817	463,447
Beneficial interest in trusts	-	-	26,483	26,483
Total assets at fair value	<u>\$ 208,586</u>	<u>\$ 109,838</u>	<u>\$ 175,300</u>	<u>\$ 493,724</u>
<b>Liabilities</b>				
Interest rate agreements	<u>\$ -</u>	<u>\$ (3,382)</u>	<u>\$ (6,217)</u>	<u>\$ (9,599)</u>
<b>2014</b>				
<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Funds held under bond agreements	\$ 3,670	\$ -	\$ -	\$ 3,670
Investments				
Cash and cash equivalents	4,452	-	-	4,452
Equity securities	131,860	7,456	-	139,316
Fixed income securities	50,687	265	-	50,952
Commodities	14,060	-	-	14,060
Alternative investments				
Equity funds	-	89,611	57,515	147,126
Fixed income funds	-	9,297	40,121	49,418
Private equity funds	-	-	28,968	28,968
Real estate	-	-	28,524	28,524
Total investments	201,059	106,629	155,128	462,816
Beneficial interest in trusts	-	-	24,500	24,500
Total assets at fair value	<u>\$ 204,729</u>	<u>\$ 106,629</u>	<u>\$ 179,628</u>	<u>\$ 490,986</u>
<b>Liabilities</b>				
Interest rate agreements	<u>\$ -</u>	<u>\$ (3,468)</u>	<u>\$ (5,600)</u>	<u>\$ (9,068)</u>

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

The following table summarizes the changes in the Level 3 financial instruments carried at fair value during the years ended June 30, 2015 and 2014 (in thousands):

	Alternative Investments				Total Alternative Investments	Beneficial Interest in Trusts	Total Level 3 Assets
	Equity Funds	Fixed Income Funds	Private Equity Funds	Real Estate			
Fair value, June 30, 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)
Fair value, June 30, 2014	57,515	40,121	28,968	28,524	155,128	24,500	179,628
Net realized and unrealized gains	811	417	1,601	1,870	4,699	1,236	5,935
Purchases	5,000	-	5,315	3,987	14,302	1,839	16,141
Sales and settlements	(7,980)	(5,642)	(7,660)	(4,030)	(25,312)	(1,092)	(26,404)
Fair value, June 30, 2015	\$ 55,346	\$ 34,896	\$ 28,224	\$ 30,351	\$ 148,817	\$ 26,483	\$ 175,300

  

	Interest Rate Agreements	Total Level 3 Liabilities
Fair value, June 30, 2013	\$ (5,565)	\$ (5,565)
Net realized and unrealized losses	(35)	(35)
Fair value, June 30, 2014	(5,600)	(5,600)
Net realized and unrealized losses	(617)	(617)
Fair value, June 30, 2015	\$ (6,217)	\$ (6,217)

In the consolidated statements of activities for the years ended June 30, 2015 and 2014, 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 years ended June 30, 2015 and 2014, there were no Level 3 transfers.

**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

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2015 and 2014

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

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

#### **Deferred Financing Costs**

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

For the years ended June 30, 2015 and 2014, deferred financing costs, net totaled approximately \$2,705,000 and \$2,709,000 respectively. Amortization expense for the years ended June 30, 2015 and 2014 was approximately \$92,000 and \$87,000, respectively. The estimated amortization expense for deferred financing costs for the next five years is approximately \$90,000 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.

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2015 and 2014

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#### 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, 2015 and 2014, the net deferred gain totaled \$2,248,000 and \$2,318,000, 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



**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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of undiscounted cash flows. The University derecognizes ARO liabilities when the related obligations are settled.

**Tax-Exempt Status**

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

**Sponsored Research**

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

**3. Accounts Receivable**

Accounts receivable consist of the following at June 30, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>
Sponsored research	\$ 6,857	\$ 4,461
Student receivables	3,249	2,860
Other receivables	1,150	1,216
	<u>11,256</u>	<u>8,537</u>
Less: Allowance for doubtful accounts	<u>(1,136)</u>	<u>(957)</u>
	<u>\$ 10,120</u>	<u>\$ 7,580</u>

**4. Contributions Receivable**

Unconditional promises are expected to be received in the following periods at June 30, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>
In one year or less	\$ 6,206	\$ 4,227
Between one and five years	3,355	3,742
	<u>9,561</u>	<u>7,969</u>
Less:		
Discount to present value	(164)	(95)
Allowance for doubtful contributions	<u>(630)</u>	<u>(510)</u>
	<u>\$ 8,767</u>	<u>\$ 7,364</u>

As of June 30, 2015 and 2014, the University has approximately \$80,731,000 and \$78,921,000, respectively, of conditional promises to give that are not recognized as assets in the accompanying consolidated statements of financial position.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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**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, 2015 and 2014, student loans represented 2.5% and 2.7% of total assets, respectively.

Student loans receivable consist of the following at June 30, 2015 and 2014 (in thousands):

	2015			2014		
	Federal Government Programs	Institutional Programs	Total	Federal Government Programs	Institutional Programs	Total
Student loans receivable	\$ 11,889	\$ 10,919	\$ 22,808	\$ 12,448	\$ 11,620	\$ 24,068
Less allowance for doubtful accounts:						
Beginning of year	(656)	(305)	(961)	(566)	(254)	(820)
Decreases (increases)	222	(47)	175	(90)	(209)	(299)
Write-offs	-	94	94	-	158	158
End of year	(434)	(258)	(692)	(656)	(305)	(961)
Student loans receivable, net	\$ 11,455	\$ 10,661	\$ 22,116	\$ 11,792	\$ 11,315	\$ 23,107

The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government and their share of student loan activity of \$9,015,000 and \$8,942,000 at June 30, 2015 and 2014 are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position (see Note 13). 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, 2015 and 2014 (in thousands):

	1-60 days	60-90 days	90+ days	Total past due
June 30, 2015	\$ 26	\$ 6	\$ 1,051	\$ 1,083
June 30, 2014	34	11	1,294	1,339

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.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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**6. Investments**

Investments at June 30, 2015 are as follows (comparative totals are included for 2014) (in thousands):

	2015			2014 Total
	Endowment and Similar Funds	Split-Interest Agreements	Total	
Cash and cash equivalents	\$ 3,609	\$ 221	\$ 3,830	\$ 4,452
Equity securities	115,478	13,648	129,126	139,316
Fixed income securities	62,725	6,007	68,732	50,952
Commodities	10,613	-	10,613	14,060
Alternative investments				
Equity funds	145,297	-	145,297	147,126
Fixed income funds	47,274	-	47,274	49,418
Private equity funds	28,224	-	28,224	28,968
Real estate	30,351	-	30,351	28,524
Total investments	<u>\$ 443,571</u>	<u>\$ 19,876</u>	<u>\$ 463,447</u>	<u>\$ 462,816</u>

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

Real estate consists mainly of direct real estate holdings and investments in privately held entities. The fair values of the real estate investments in privately held entities have been valued based on the NAV provided by the fund managers of these investment vehicles. The fair values of direct real estate holdings have been prepared giving consideration to periodic independent external appraisers, as well as the income, cost and sales comparison approaches of estimating property value. The income approach estimates an income stream for a property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. A second technique is the direct capitalization analysis. Direct capitalization involves capitalizing a property's first year, or stabilized net operating income in to a value estimate. Yield rates and growth assumptions utilized in both approaches are derived from market transactions as well as other financial and industry data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. Generally, 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, 2015 and 2014.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 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, 2015 and 2014 not valued at NAV (in thousands):

Real estate investment	Fair Value at June 30, 2015 and 2014	Valuation Technique	Unobservable Input	Range
Commercial real estate, Worcester, MA	\$ 7,400	Income capitalization	Capitalization Rate	5.39% - 9.56%
Leased land, Worcester, MA	4,730	Income capitalization	Capitalization Rate	5.0% - 7.25%
Parking garage, Worcester, MA	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	-20% - +30%
Undeveloped land, Worcester, MA	1,600	Sales comparison	Price per acre	\$0.7M - \$1.4M
			Comparability adjustments	-5% - +45%
	<u>\$ 18,945</u>			

The following table summarizes key provisions for the University's alternative investments valued at NAV as of June 30, 2015 (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
<b>Absolute Return – Market Neutral</b>	Global equity and fixed income funds in market neutral strategies	\$122,807	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
<b>Private Equity</b>	Venture capital and buyout, in the U.S. and international	27,222	22	1 to 10 years	12,729	1 to 10 years	Private equity structure with no ability to be redeemed.	Not redeemable	Not redeemable
<b>Directional Hedge</b>	Global long/short equity funds	69,764	3	NA	--	NA	Quarterly redemption with 60 days' notice.	Illiquid investments exist for 1 of the funds.	None
<b>Real Estate</b>	U.S. real estate	10,951	5	2 to 9 years	19,364	2 to 9 years	Private equity structure with no ability to redeem.	Not redeemable	Not redeemable
<b>Total</b>		<u>\$230,744</u>	<u>42</u>		<u>\$32,093</u>				

NA = not applicable

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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
<b>Absolute Return – Market Neutral</b>	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
<b>Private Equity</b>	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
<b>Directional Hedge</b>	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
<b>Real Estate</b>	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
<b>Total</b>		<u>\$233,266</u>	<u>42</u>		<u>\$14,959</u>				

NA = not applicable

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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**Endowment Income and Spending**

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

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

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

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

The University’s investment return for the year ended June 30, 2015, with comparative totals for 2014, is summarized as follows (in thousands):

	<u>2015</u>				<u>2014</u> <u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Total</u>	
Investment income on endow ment and similar funds	\$ 1,967	\$ 26	\$ 74	\$ 2,067	\$ 2,074
Net realized and unrealized gains (losses) on investments	1,886	(581)	-	1,305	55,380
Return on endow ment and similar funds	3,853	(555)	74	3,372	57,454
Other investment income	1,958	523	71	2,552	2,524
Total return on investments	5,811	(32)	145	5,924	59,978
Investment return designated for current unrestricted operations	(11,378)	(8,266)	-	(19,644)	(18,938)
Investment return net of return utilized	\$ (5,567)	\$ (8,298)	\$ 145	\$ (13,720)	\$ 41,040

Investment income is net of investment management fees of approximately \$484,000 and \$516,000 for the years ended June 30, 2015 and 2014, respectively.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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The University observes a spending rule with respect to total return (interest, dividends and appreciation) on investments of the endowment and similar funds. Under the spending rule, the University appropriated 4.9% of its endowment and similar funds' average unit fair value for the previous twelve quarters, one year removed, for the year ended June 30, 2015. For the year ended June 30, 2014, 5.0% was appropriated based on the average unit fair value for the previous three years, one year removed.

The spending rule distributions for fiscal years 2015 and 2014, respectively, were \$0.276 and \$0.273 per time weighted unit, comprised of, respectively, \$0.056 and \$0.058 of income and \$0.220 and \$0.215 of distributions from current and accumulated net gains. At June 30, 2015 there were a total of 69,226,492 units in the pooled endowment and similar funds, each having a fair value of \$6.158. Of the total units, 36,835,055 were owned by endowment funds and 32,391,437 were owned by internally designated funds. 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.

A summary of the fair value per unit and the income per time-weighted unit for the pooled investments held as of June 30, 2015 and in each of the prior four years is as follows:

	<b>Income Per Time- Weighted Unit</b>	<b>Fair Value Per Unit</b>
2015	\$ 0.056	\$ 6.158
2014	0.058	6.313
2013	0.058	5.753
2012	0.050	5.524
2011	0.066	5.827

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 \$997,000 and \$733,000 at June 30, 2015 and 2014, respectively, and have been offset by transfers from unrestricted net assets to temporarily restricted net assets. The University is under no legal obligation to fund the deficiency.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

**Endowment and Similar Funds**

The endowment and similar funds' net asset composition as of June 30, 2015 and 2014 and the changes for the years then ended are as follows (in thousands):

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

	<b>2014</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor restricted	\$ -	\$ 102,955	\$ 129,696	\$ 232,651
Quasi-endowment	183,556	-	-	183,556
<b>Total</b>	<b>\$ 183,556</b>	<b>\$ 102,955</b>	<b>\$ 129,696</b>	<b>\$ 416,207</b>
Balance, June 30, 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
<b>Total investment return</b>	<b>29,192</b>	<b>27,342</b>	<b>-</b>	<b>56,534</b>
Contributions	854	-	5,098	5,952
Appropriated for expenditure	(11,212)	(7,239)	-	(18,451)
Decrease in provision for underwater funds	893	(893)	-	-
<b>Balance, June 30, 2014</b>	<b>\$ 183,556</b>	<b>\$ 102,955</b>	<b>\$ 129,696</b>	<b>\$ 416,207</b>

**Split-Interest Agreements**

Investments include the following split-interest agreements at June 30, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>
Charitable gift annuities	\$ 10,191	\$ 10,251
Charitable remainder trusts	8,018	9,502
Pooled income funds	1,667	1,812
	<b>\$ 19,876</b>	<b>\$ 21,565</b>



**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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**7. Land, Buildings and Equipment**

Land, buildings and equipment, net, consist of the following at June 30, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>
Land and land improvements	\$ 25,349	\$ 27,657
Buildings	407,869	408,332
Equipment	<u>61,529</u>	<u>56,357</u>
	494,747	492,346
Less: Accumulated depreciation	<u>(197,676)</u>	<u>(188,182)</u>
	297,071	304,164
Construction-in-progress	<u>7,967</u>	<u>3,752</u>
	<u>\$ 305,038</u>	<u>\$ 307,916</u>

Depreciation expense charged to operations was approximately \$20,834,000 and \$19,756,000 for the years ended June 30, 2015 and 2014, respectively. Net interest cost capitalized was approximately \$121,000 and \$213,000 for the years ended June 30, 2015 and 2014, respectively.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

**8. Bonds and Notes Payable**

Bonds and notes payable consist of the following (in thousands) at June 30, 2015 and 2014:

<b>Purpose and Definition</b>	<b>Maturity Date</b>	<b>Interest Rate %</b>	<b>Original Issue</b>	<b>Amount Due Within One Year</b>	<b>Balance, June 30, 2015</b>	<b>Balance, June 30, 2014</b>
<b>Bonds payable</b>						
Housing and Urban Development 1969 Series C (1)	4/1/2019	3.0	\$ 1,160	40	\$ 167	\$ 207
Massachusetts Development Finance Agency 2007 Series (2)	9/1/2047	4.0-5.0	81,915	1,960	75,768	77,723
Massachusetts Development Finance Agency 2008 Series A & B (3)	9/1/2035	Variable	54,815	1,900	48,315	50,060
Massachusetts Development Finance Agency 2010 Series (4)	9/1/2045	4.5-5.0	56,000	-	56,062	56,064
Massachusetts Development Finance Agency 2012 Series (5)	9/1/2050	4.0-5.0	42,540	-	43,306	43,327
Massachusetts Development Finance Agency 2014 Series (3)	9/1/2029	3.10	2,782	139	2,709	-
Wells Fargo (6)	7/1/2016	-	993	450	993	-
<b>Uncollateralized notes</b>						
TD Bank Worcester Business Development Corp.	7/1/2023 9/1/2014	Variable 5.0	7,122 1,766	356 -	6,469 -	6,825 66
<b>Capital lease obligations</b>	Various	Various		833	2,342	2,540
<b>Total bonds and notes payable</b>				<b>\$ 5,678</b>	<b>\$ 236,131</b>	<b>\$ 236,812</b>

- (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, 2015 and 2014 include a premium of approximately \$1,758,000 and \$1,813,000, 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, 2015 and 2014 include a premium of approximately \$62,000 and \$64,000, respectively.
- (5) The bonds represent a general obligation of the University. The balances at June 30, 2015 and 2014 include a premium of approximately \$766,000 and \$787,000, respectively.
- (6) Collateralized by certain network infrastructure equipment.

In compliance with the University's various bond indentures, funds held under bond agreements at June 30, 2015 and 2014 include investments of approximately \$3,794,000 and \$3,670,000, respectively, held for construction and debt service reserves.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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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, 2015 and 2014 and the University's credit risk as of June 30, 2015 and 2014. The estimated fair value at June 30, 2015 and 2014 is approximately \$260,482,000 and \$262,687,000, 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):

2016	\$	5,678
2017		5,850
2018		4,509
2019		4,536
2020		4,492
Thereafter		<u>208,480</u>
Total cash payments	\$	233,545
Premium		<u>2,586</u>
	\$	<u>236,131</u>

In June 2015, the University financed \$993,000 with Wells Fargo Equipment Finance, Inc., to upgrade certain network infrastructure. The interest-free borrowing is collateralized by equipment and is payable in two installments of \$450,000 and \$543,000, due July 1, 2015 and 2016, respectively.

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

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 1.68% and 1.65% at June 30, 2015, and 2014, respectively.

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

# **Worcester Polytechnic Institute**

## **Notes to Consolidated Financial Statements**

### **June 30, 2015 and 2014**

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

In April 2008, the University borrowed \$54,815,000 in the form of MDFA Variable Rate Demand Revenue Bonds Series 2008A (tax-exempt) and 2008B (federally taxable), (the "2008 Bonds"). The proceeds from the issues were used to refund the University's borrowings under the MDFA Revenue Bonds, Series 2005A (tax-exempt) and 2005B (federally taxable) Select Auction Variable Rate Securities (the "2005 Bonds"), and the MDFA Revenue Bonds, Series 2003A Select Auction Variable Rate Securities (the "2003 Bonds"), and to pay the costs of issuance. The 2008 Bonds are payable in semiannual installments with principal payments ranging from \$360,000 to \$2,915,000, with a final maturity of September 1, 2035. Interest on the 2008 Bonds is at a variable rate which is reset on a weekly basis. The interest rates at June 30, 2015 for the 2008A and 2008B Bonds were 0.07% and 0.12%, respectively. At June 30, 2014, the rates were 0.06% and 0.12%, 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, \$4,831,000, \$9,663,000, \$9,663,000, \$9,663,000 and \$14,495,000.

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, 2015 and 2014.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

**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, 2015 and 2014 (dollars in thousands):

	<b>Series 2008 A&amp;B</b>			
	<b>Deutsche Bank AG</b>	<b>Barclays Bank PLC</b>	<b>Barclays Bank PLC</b>	
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 w hen LIBOR is ≥ 4.00%	one-month LIBOR	
		SIFMA Municipal Sw ap Index w hen LIBOR is < 4.00%		
	<b>Series 2008 A&amp;B</b>			
<u>Fair Value Liability</u>	<b>Deutsche Bank AG</b>	<b>Barclays Bank PLC</b>	<b>Barclays Bank PLC</b>	<u>Total, net</u>
June 30, 2015	\$ 3,374	\$ 6,217	\$ 8	\$ 9,599
June 30, 2014	\$ 3,351	\$ 5,600	\$ 117	\$ 9,068

The net unrealized loss that was recognized for the interest rate swap agreements for the year ended June 30, 2015 was approximately \$531,000 and has been recorded in net realized and unrealized losses on interest rate agreements on the accompanying consolidated statements of activities. The net unrealized gain recognized in the accompanying consolidated statement of activities for the year June 30 2014 was approximately \$201,000. At June 30, 2015 and 2014, the fair value liability for interest rate swap agreements totaled \$9,599,000 and \$9,068,000, respectively.

The interest rate swap agreements contain provisions requiring collateral postings should the fair value liability of the University exceed certain amounts based on the University's long term credit ratings. The collateral posting provision for the agreement with Deutsche Bank AG is triggered should the fair value liability exceed \$40 million and the University's long term credit rating remains at A1/A+. The collateral posting provision for the two agreements with Barclays Bank PLC is triggered should the combined fair value liability exceed \$40 million and the University's long term credit rating declines to A2/A. At its current ratings level of A1/A+, no amount of fair value liability will trigger a posting requirement for the Barclays Bank PLC agreements. The provisions with both counterparties provide that the liability threshold decreases if the University's long term credit ratings decline. At June 30, 2015, 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 \$8,357,000 and \$7,123,000 for the years ended June 30, 2015 and 2014, respectively. Contributions are based upon a percentage of the employees' compensation.

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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**11. Net Assets**

Net assets consist of the following at June 30, 2015 and 2014 (in thousands):

	<b>2015</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment funds				
Long-term investment (quasi - endowment)	\$ 178,527	\$ -	\$ -	\$ 178,527
Original principal	-	-	141,666	141,666
Unspent income and appreciation				
Scholarship support	-	59,229	-	59,229
Faculty support	-	12,759	-	12,759
Program support	-	27,128	-	27,128
Total endowment funds	<u>178,527</u>	<u>99,116</u>	<u>141,666</u>	<u>419,309</u>
Split-interest agreements and perpetual trusts	-	8,157	26,690	34,847
Student loan funds	11,677	-	3,708	15,385
Gifts and other unexpended revenues				
Acquisition of building and equipment	-	6,368	-	6,368
Instruction, research, and institutional support	-	5,134	-	5,134
Undesignated	85,839	-	-	85,839
	<u>\$ 276,043</u>	<u>\$ 118,775</u>	<u>\$ 172,064</u>	<u>\$ 566,882</u>
	<b>2014</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment funds				
Long-term investment (quasi - endowment)	\$ 183,556	\$ -	\$ -	\$ 183,556
Original principal	-	-	129,696	129,696
Unspent income and appreciation				
Scholarship support	-	59,519	-	59,519
Faculty support	-	14,226	-	14,226
Program support	-	29,210	-	29,210
Total endowment funds	<u>183,556</u>	<u>102,955</u>	<u>129,696</u>	<u>416,207</u>
Split-interest agreements and perpetual trusts	-	8,251	25,364	33,615
Student loan funds	10,951	-	3,709	14,660
Gifts and other unexpended revenues				
Acquisition of building and equipment	-	5,751	-	5,751
Instruction, research, and institutional support	-	4,814	-	4,814
Undesignated	85,552	-	-	85,552
	<u>\$ 280,059</u>	<u>\$ 121,771</u>	<u>\$ 158,769</u>	<u>\$ 560,599</u>

**Worcester Polytechnic Institute**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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**12. Expenses by Functional Category**

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

External relations expenditures include approximately \$5,606,000 and \$6,048,000 of fundraising expenses for the years ended June 30, 2015 and 2014, respectively.

**13. Revision of Prior Year Amounts**

The University revised certain prior year amounts in the 2014 consolidated statement of financial position and statement of activities to correct for errors in the financial reporting of its liability for the Perkins federal revolving loan program. The errors being corrected relate to allocating student loan activity such as interest earned on loans, write-offs of uncollectible loans and loan cancellations to the University and the Department of Education based on each institution's capital contribution percentage. The cumulative error through June 30, 2013 was corrected by increasing refundable government loan funds and reducing beginning net assets as of July 1, 2013 by \$2,098,000. The University has concluded the error is immaterial to the prior period financial statements. The 2014 activity was revised as follows (in thousands):

	<b>2014</b>
	Increase (Decrease)
	in Line Item
Consolidated Statement of Financial Position	
Refundable government loan funds	<u>\$ 52</u>
Consolidated Statement of Activities	
Operating revenues	
Other investment income	(179)
Other	<u>(6)</u>
Total revenues	<u>(185)</u>
Total revenues and other support	<u>(185)</u>
Operating expenses	
Institution and academic support	<u>(133)</u>
Total operating expenses	<u>(133)</u>
Change in net assets from operating activities	<u>(52)</u>
Total change in net assets	<u>\$ (52)</u>
Consolidated Statement of Cash Flows	
Cash flows from operating activities	
Change in net assets	<u>(52)</u>
Changes in assets and liabilities:	
Refundable government loan funds	<u>52</u>
Total adjustments	<u>52</u>
Net cash provided by operating activities	<u>\$ -</u>

# Worcester Polytechnic Institute

## Notes to Consolidated Financial Statements

### June 30, 2015 and 2014

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#### 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 \$6,530,000 in outstanding mortgage and construction notes payable with TD Banknorth, N.A. for which the University entered into limited guarantees. As of June 30, 2015, the amount guaranteed by the University is approximately \$816,000.

##### **Alumni Association of Worcester Polytechnic Institute (“Alumni Association”)**

The Alumni Association, a separate 501(c)(3) organization, invests the majority of its funds in the University’s endowment. At June 30, 2015 and 2014, funds held for others in the consolidated statements of financial position include Alumni Association assets of \$2,850,000 and \$2,774,000, respectively.

#### 15. Commitments and Contingencies

##### **Construction Contracts**

For the year ended June 30, 2015, the University had contracted for various renovations and construction projects across campus totaling \$12,955,000.

##### **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, 2015, the University had unfunded commitments of approximately \$56,093,000 that can be called through fiscal year 2030. These commitments will be funded from the University’s existing cash and investments.

##### **Operating Leases**

The University is obligated under noncancelable operating leases for office space and storage facilities. The future minimum rental commitments for the next five years under these agreements as of June 30, 2015, are approximately as follows (in thousands):

2016	\$	1,713
2017		1,684
2018		1,396
2019		1,168
2020		990

Rental expense was approximately \$2,021,000 and \$1,492,000 for the years ended June 30, 2015 and 2014, respectively.

##### **Guarantees**

In addition to the amounts guaranteed by the University as disclosed in Note 14, the University has guaranteed commercial loans with an outstanding amount of approximately \$2,300,000 to eight fraternities. These loans are collateralized by real property owned by the fraternities.

##### **Uncertain Tax Positions**

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



# **Worcester Polytechnic Institute**

## **Notes to Consolidated Financial Statements**

### **June 30, 2015 and 2014**

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#### **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, 2015 and 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, 2015 through November 6, 2015, 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**  
**June 30, 2015**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
<b>STUDENT FINANCIAL AID CLUSTER</b>			
<b>U.S. Department of Education</b>			
Federal Pell Grant Program	84.063		\$ 2,458,806
Federal Supplemental Educational Opportunity Grants	84.007		442,801
Federal Work Study Program	84.033		365,427
Federal Perkins Loan Program-Admin Allowance	84.038		81,683
Total Student Financial Aid			<u>3,348,717</u>
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>			
<b>Department of Agriculture</b>			
Pass-Through Programs From low a State University	10.310	416-41-54B	4,660
Total Department of Agriculture			<u>4,660</u>
<b>Department of Commerce</b>			
<b>National Institute for Standards and Technology</b>			
Science, Technology, Business and/or Education Outreach	11.62	70NANB15H178	10,484
Total Department of Commerce			<u>10,484</u>
<b>Department of Defense</b>			
<b>Defense Advanced Research Projects Agency</b>			
Research and Technology Development	12.910		1,480,689
Pass-Through Programs From Raytheon BBN Technologies Corporation	12.	14389	139,811
Total Defense Advanced Research Projects Agency			<u>1,620,500</u>
<b>Department of the Air Force</b>			
Air Force Defense Research Sciences Program	12.800		188,189
Pass-Through Programs From Massachusetts Institute of Technology Lincoln Laboratories	12.	7000180184	(1,896)
LoadPath	12.	1307	955
Aurora Flight Sciences Corporation	12.	AFS141186/FA8501-14-P-0034	33,602
Total Department of the Air Force			<u>220,850</u>
<b>Department of the Army</b>			
Department of the Army Direct Programs	12.431		8,068,792
Military Medical Research and Development	12.420		466,657
Pass-Through Programs From Spaulding Rehabilitation Hospital in Boston	12.420	W81XWH-14-1-0611	38,798
Total Department of the Army			<u>8,574,247</u>
<b>Department of the Navy</b>			
Basic and Applied Scientific Research	12.300		502,879
Pass-Through Programs From ALMMII	12.300	001/N00014-14-2-0002	11,004
Leidos, Inc.	12.	PO1013502	2,478
University of Massachusetts Amherst	12.	13007563A00	92,839
Total Department of the Navy			<u>609,200</u>

The accompanying notes are an integral part of this schedule.

**Worcester Polytechnic Institute**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2015**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
<b>National Security Agency Direct Programs</b>			
Mathematical Sciences Grants Program	12.901		2,389
Total National Security Agency			<u>2,389</u>
Total Department of Defense			<u>11,027,186</u>
<b>Department of Education</b>			
Graduate Assistance in Areas of National Need	84.200		268,304
Education Research, Development and Dissemination	84.305		629,095
Pass-Through Programs From			
SRI International	84.305	128-000013	253,103
West Ed	84.305	6255S10-047/R305C100024	130,394
Total Department of Education			<u>1,280,896</u>
<b>Department of Energy</b>			
Office of Science Financial Assistance Program	81.049		35,223
Fossil Energy Research and Development	81.089		1,281,304
Pass-Through Programs From			
Argonne National Laboratory	81.	4F-30361	39,663
BWXT Pantex, LLC.	81.	PTX010000041529	33,133
UT-Battelle LLC	81.	DE-AC05-00OR22725	13,558
ARRA - Premium Power Corporation	81.122	DE-OE0000224-WPI	14,902
Massachusetts Institute of Technology	81.049	5710003766	91,244
PolyCel Inc.	81.049	WPI0001	86,628
Total Department of Energy			<u>1,595,655</u>
<b>Department of Health and Human Services</b>			
Oral Diseases and Disorders Research	93.121		17,066
Research and Training in Complementary and Alternative Medicine	93.213		121,420
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		51,602
Trans-NIH Research Support	93.310		135,935
Cancer Cause and Prevention Research	93.393		78,958
Cancer Detection and Diagnosis Research	93.394		839,705
Cardiovascular Diseases Research	93.837		513,191
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		315,043
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		7,527
Biomedical Research and Research Training	93.859		249,567
Pass-Through Programs From			
Massachusetts Eye and Ear Infirmary	93.173	30415/R01DC008642-04	135,074
UMass Medical School	93.286	6122560/RFS2011027	8,933
Brigham & Women's Hospital	93.394	107351/2R01CA111288-06	102,046
Boston Children's Hospital	93.837	305618/R01HL089269	66,355
UMass Medical School	93.837	R01HL122302-01A1	17,801
UMass Medical School	93.847	1-R21-DK098556-01	45,469
Pennsylvania State University	93.859	4840-WPI-DHHS-0076	80,352
Total Department of Health and Human Services			<u>2,786,044</u>

The accompanying notes are an integral part of this schedule.

**Worcester Polytechnic Institute**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2015**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Expenditures</b>
<b><u>Department of Homeland Security</u></b>			
Assistance to Firefighters Grant	97.044		567,468
Pass-Through Programs From CFAI-Risk, Inc. Total Department of Homeland Security	97.044	EMW-2013-FP-00893	<u>96,246</u> <b>663,714</b>
<b><u>Department of Interior</u></b>			
US Department of Interior	15.		550,977
Pass-Through Programs From University of Massachusetts Amherst Total Department of Interior	15.805	14006501, G11AP20085	<u>18,936</u> <b>569,913</b>
<b><u>Department of Justice</u></b>			
Pass-Through Programs From Clark University Total Department of Justice	16.525	2F002-7533/2009-WA-AX-0012	<u>19,325</u> <b>19,325</b>
<b><u>Department of Transportation</u></b>			
Pass-Through Programs From Maine Department of Transportation University of New Hampshire Total Department of Transportation	20. 20.	20140327000000000540 14-051/DTFH61-13-C-00022	<u>52,481</u> <u>41,798</u> <b>94,279</b>
<b><u>Department of Veterans Affairs</u></b>			
Department of Veterans Affairs Direct Programs Total Department of Veterans Affairs	64.		<u>198,783</u> <b>198,783</b>
<b><u>National Science Foundation</u></b>			
Engineering Grants	47.041		2,031,653
Mathematical and Physical Sciences	47.049		878,059
Computer and Information Science and Engineering	47.070		2,673,695
Biological Sciences	47.074		233,396
Education and Human Resources	47.076		1,400,743
International Science and Engineering (OISE)	47.079		11,420
ARRA - Trans-NSF Recovery Act Research Support	47.082		20,177
Pass-Through Programs From University of Colorado University of New Hampshire University of New Hampshire ORB Analytics Mathematical Association of America University of Louisville University of Massachusetts Amherst Dartmouth College Columbia University Harrisburg University of Science and Technology University of Massachusetts Amherst University of Illinois-Chicago Total National Science Foundation	47.041 47.041 47.041 47.041 47.049 47.049 47.070 47.076 47.076 47.076 47.076 47.076 47.076	1551568/IIP1414250 13-023/1152771 13022/1159662 WPI0002/IIP-1353600 3-8-710-949/DMS-1345499 DMR-1410678,14059202 A000218842 985/NCB-1158229 513135/DRL1252297 11224488 12-006782 E 00/HRD-1102489 2013-03309/DRL-1316736	24,844 67,327 47,561 43,115 26,309 26,376 4,732 7,281 17,845 4,928 70,170 29,671 <b>7,619,302</b>

The accompanying notes are an integral part of this schedule.

**Worcester Polytechnic Institute**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2015**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Expenditures</b>
<b><u>National Aeronautics and Space Administration</u></b>			
Space Operations	43.007		49,351
Cross Agency Support	43.009		48,385
Pass-Through Programs From Autonomous Exploration, Inc.	43.	NNXX11CA57C	5,543
Total National Aeronautics and Space Administration			<u>103,279</u>
<b><u>Nuclear Regulatory Commission</u></b>			
Department of Nuclear Regulatory Programs	77.		157,154
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008		175,812
Total Nuclear Regulatory Commission			<u>332,966</u>
<b>Total Research and Development Cluster</b>			<u>26,306,486</u>
<b>OTHER PROGRAMS</b>			
<b><u>Department of Defense</u></b>			
<b>Department of the Air Force</b>			
Pass-Through Programs From Massachusetts Institute of Technology Lincoln Laboratory	12.	PO 7000283367	65,809
Total Department of Air Force			<u>65,809</u>
<b>Department of the Army</b>			
Department of the Army Direct Programs	12.		6,150
Basic Scientific Research	12.431		8,029
Total Department of Army			<u>14,179</u>
<b>Department of the Navy</b>			
Basic and Applied Scientific Research	12.300		50,000
Total Department of Navy			<u>50,000</u>
Total Department of Defense			<u>129,988</u>
<b><u>Department of Education</u></b>			
Undergraduate International Studies and Foreign Language	84.016		68,509
Total Department of Education			<u>68,509</u>
<b><u>Environmental Protection Agency</u></b>			
P3 Award: National Student Design Competition for Sustainability (B)	66.516		13,328
Total Environmental Protection Agency			<u>13,328</u>
<b><u>Department of State</u></b>			
One-Time International Exchange Grant Program	19.014		91,238
Total Department of State			<u>91,238</u>

The accompanying notes are an integral part of this schedule.

**Worcester Polytechnic Institute**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2015**

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Expenditures</u>
<b><u>Institute of Museum and Library Services</u></b>			
Pass-Through Programs From			
Ecotarium	45.307	MP-0011-0049-11	5,306
Total Institute of Museum and Library Services			<u>5,306</u>
<b><u>Department of Veterans Affairs</u></b>			
Department of Veterans Affairs Direct Programs	64.		42,497
Total Department of Veterans Affairs			<u>42,497</u>
<b><u>Nuclear Regulatory Commission</u></b>			
U.S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006		29,030
Total Nuclear Regulatory Commission			<u>29,030</u>
<b>Total Other Programs</b>			<u>379,896</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 30,035,099</u>

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, 2015**

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**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule"), includes the federal grant activity of Worcester Polytechnic Institute (the "University") for the year ended June 30, 2015 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 when available) on the Schedule. CFDA numbers are presented where available.

**2. Administrative Cost Allowance**

The University received \$132,196 of administrative cost allowances of which \$27,675 and \$22,838 pertain to Federal Supplemental Educational Opportunity Grants and Federal Work Study, respectively, (including \$81,683 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:

	<b>CFDA#</b>	<b>Amount</b>
Research & Development Cluster:		
Total Research and Development Cluster	Various	\$ 9,961,084
Total Federal Subrecipient Awards		\$ 9,961,084

**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 \$1,633,651 of new loans under the Perkins Loan Program (CFDA # 84.038) for the year ended June 30, 2015. The new loans were funded by repayments of previously issued Perkins Loans. The balance of Perkins Loans outstanding at June 30, 2015 was \$11,888,505.

In addition, the University processed \$25,703,376 of loans under the William D. Ford Federal Direct Stafford Loan Program (CFDA 84.032) for the year ended June 30, 2015.

**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, 2015, and the related notes to the financial statements, which collectively comprise Worcester Polytechnic Institute's financial statements, and have issued our report thereon dated November 6, 2015.

### **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 6, 2015



**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, 2015. 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, 2015.

## 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  
December 18, 2015

**PART II**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Worcester Polytechnic Institute**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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

**Financial Statements**

Type of auditor's report issued Unmodified

Internal control over financing reporting

    Material weakness(es) identified?  Yes  No

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

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs

    Material weakness(es) identified?  Yes  No

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

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

Any audit findings disclosed that are required to be  
 reported in accordance with section 510(a) of  
 Circular A-133?  Yes  No

Identification of major programs:

**CFDA Number**

Various

**Name of Federal Program or Cluster**

Research and Development Cluster

Dollar threshold used to distinguish between Type A and  
 Type B federal programs \$2,029,000

Auditee qualified as low-risk auditee?  Yes  No

# **Worcester Polytechnic Institute**

## **Schedule of Findings and Questioned Costs**

### **Year Ended June 30, 2015**

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#### **Section II – Financial Statement Finding**

In anticipation of the potential cessation of the Perkins Loan Program (PLP) and its related impact on WPI, the Controller and Director of Financial Services proactively reviewed the liability to the Department of Education (DOE) for its capital contribution portion of the program. At the time WPI first participated in the Perkins Loan Program, the DOE provided a capital contribution of loan funds (called Federal Capital Contribution or FCC) and this amount was proportionately matched by WPI (called the Institutional Capital Contribution or ICC). During this management review, it was determined that while the annual PLP activity was recorded properly to the appropriate revenue and expense accounts (new loans issued, repayments, interest income, collection costs, etc.), the DOE's proportionate share (FCC) of that activity was not being updated and recorded as a liability back to DOE, who is entitled to amounts equal to the FCC percentage in effect for the given fiscal year. The liability on WPI's ledger has not changed in a decade. There was a significant deficiency in the operations of the internal controls which was a result of a lack of full understanding of the Perkins Loan Program liability components, which impacted management's ability to record the appropriate liability due to the Federal government. This led to a cumulative correction made by management to the prior year financial statements of approximately \$2.2 million. The information reported to the federal government through the Fiscal Operations Report and Application to Participate (FISAP) was reported accurately.

We recommend management ensure all personnel responsible for accounting for this program are familiar with the PLP, the related transactional activities within the PLP, and the appropriate accounting for this activity in WPI's financial statements. We also recommend the accounting for the PLP be reviewed by someone that also has the requisite level of understanding related to the program.

Management concurs and will put in place and document the proper policies and procedures for posting and reviewing PLP activity, including ensuring the DOE liability is properly recorded.

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 Findings and Questioned Costs**  
**Year Ended June 30, 2015**

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**Prior Year Findings**

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