



Financial Statements

June 30, 2018 and 2017

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.

Financial Statements

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Independent Auditors' Report

Board of Trustees
Wentworth Institute of Technology, Inc.
Boston, Massachusetts

We have audited the accompanying financial statements of Wentworth Institute of Technology, Inc. (the "university"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, and 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 these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wentworth Institute of Technology, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Maye Heyman McCann P.C.

November 14, 2018
Boston, Massachusetts

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets:		
Cash and cash equivalents	\$ 23,891,303	\$ 19,836,199
Short-term investments	20,091,315	19,768,863
Receivables and other assets, net	4,797,703	6,785,375
Student loans receivable, net	4,082,944	4,285,692
Deposits with bond trustees	17,444,897	42,258,711
Pledges receivable, net	4,329,602	4,339,581
Investments	115,570,746	96,915,942
Property and equipment, net	240,250,361	214,512,513
	\$ 430,458,871	\$ 408,702,876
Liabilities and net assets:		
Accounts payable and accrued expenses	\$ 7,704,729	\$ 6,715,581
Construction payables	6,899,187	2,817,825
Unearned tuition, fees and deposits	16,458,554	15,607,598
Obligation on charitable annuity agreements	128,700	3,196,945
Obligation on interest rate swap agreements, net	6,050,076	9,992,088
Asset retirement obligations	696,055	641,474
Accumulated postretirement benefit obligation	2,155,993	2,558,235
Bonds payable	144,547,987	149,234,432
Government advances for student loans	3,752,129	3,791,278
	188,393,410	194,555,456
Net assets:		
Unrestricted	195,300,014	175,686,300
Temporarily restricted	16,456,441	17,741,268
Permanently restricted	30,309,006	20,719,852
	242,065,461	214,147,420
	\$ 430,458,871	\$ 408,702,876

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

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Statement of Activities
Year Ended June 30, 2018
(with comparative totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Operating:					
Revenues and gains:					
Student tuition and fees	\$ 135,865,268	\$ -	\$ -	\$ 135,865,268	\$ 131,988,120
Less student aid	(47,246,143)	-	-	(47,246,143)	(46,417,583)
Net student tuition and fees	88,619,125	-	-	88,619,125	85,570,537
Auxiliary enterprises	34,335,018	-	-	34,335,018	33,071,702
Gifts and bequests	813,271	989,068	-	1,802,339	1,507,660
Governmental appropriations	871,540	-	-	871,540	850,495
Interest income	574,073	21,869	-	595,942	384,101
Net realized and unrealized loss on short-term investments	(31,061)	-	-	(31,061)	(172,858)
Other income	306,006	37,799	-	343,805	1,472,034
Investment income used for operations	231,292	1,449,445	-	1,680,737	1,494,348
Net assets released from restrictions	2,578,934	(2,578,934)	-	-	-
Total operating revenues	128,298,198	(80,753)	-	128,217,445	124,178,019
Expenses:					
Instruction	46,885,200	-	-	46,885,200	44,889,623
Academic support	4,156,067	-	-	4,156,067	3,875,227
Student services	17,372,391	-	-	17,372,391	16,757,815
Institutional support	29,257,395	-	-	29,257,395	26,467,396
Auxiliary services	27,340,381	-	-	27,340,381	25,604,865
Total operating expenses	125,011,434	-	-	125,011,434	117,594,926
Operating subtotal	3,286,764	(80,753)	-	3,206,011	6,583,093
Nonoperating:					
Gifts and bequests	1,506,205	927,584	9,557,842	11,991,631	1,712,597
Investment income	402,807	186,107	-	588,914	800,581
Net realized and unrealized gain on investments	4,798,045	2,513,016	31,312	7,342,373	10,269,453
Investment income used for operations	(231,292)	(1,449,445)	-	(1,680,737)	(1,494,348)
Net realized and unrealized gain on split-interest agreements	2,527,837	-	-	2,527,837	98,311
Net unrealized gain on interest rate swaps	3,942,012	-	-	3,942,012	6,213,605
Net assets released from restrictions	3,381,336	(3,381,336)	-	-	-
Nonoperating subtotal	16,326,950	(1,204,074)	9,589,154	24,712,030	17,600,199
Change in net assets	19,613,714	(1,284,827)	9,589,154	27,918,041	24,183,292
Net assets at beginning of period	175,686,300	17,741,268	20,719,852	214,147,420	189,964,128
Net assets at end of period	<u>\$ 195,300,014</u>	<u>\$ 16,456,441</u>	<u>\$ 30,309,006</u>	<u>\$ 242,065,461</u>	<u>\$ 214,147,420</u>

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

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>
Operating:				
Revenues and gains:				
Student tuition and fees	\$ 131,988,120	\$ -	\$ -	\$ 131,988,120
Less student aid	(46,417,583)	-	-	(46,417,583)
Net student tuition and fees	85,570,537	-	-	85,570,537
Auxiliary enterprises	33,071,702	-	-	33,071,702
Gifts and bequests	971,264	536,396	-	1,507,660
Governmental appropriations	850,495	-	-	850,495
Interest income	362,400	21,701	-	384,101
Net realized and unrealized loss on short-term investments	(172,858)	-	-	(172,858)
Other income	1,442,871	29,163	-	1,472,034
Investment income used for operations	254,667	1,239,681	-	1,494,348
Net assets released from restrictions	1,600,527	(1,600,527)	-	-
Total operating revenues	123,951,605	226,414	-	124,178,019
Expenses:				
Instruction	44,889,623	-	-	44,889,623
Academic support	3,875,227	-	-	3,875,227
Student services	16,757,815	-	-	16,757,815
Institutional support	26,467,396	-	-	26,467,396
Auxiliary services	25,604,865	-	-	25,604,865
Total operating expenses	117,594,926	-	-	117,594,926
Operating subtotal	6,356,679	226,414	-	6,583,093
Nonoperating:				
Gifts and bequests	42,961	826,136	843,500	1,712,597
Investment income	529,041	271,540	-	800,581
Net realized and unrealized gain on investments	6,600,498	3,658,690	10,265	10,269,453
Investment income used for operations	(254,667)	(1,239,681)	-	(1,494,348)
Net realized and unrealized gain on split-interest agreements	98,311	-	-	98,311
Net unrealized gain on interest rate swaps	6,213,605	-	-	6,213,605
Net assets released from restrictions	2,833,670	(2,833,670)	-	-
Nonoperating subtotal	16,063,419	683,015	853,765	17,600,199
Change in net assets	22,420,098	909,429	853,765	24,183,292
Net assets at beginning of period	153,266,202	16,831,839	19,866,087	189,964,128
Net assets at end of period	<u>\$ 175,686,300</u>	<u>\$ 17,741,268</u>	<u>\$ 20,719,852</u>	<u>\$ 214,147,420</u>

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

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.

**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 27,918,041	\$ 24,183,292
Gifts of stock and property	(307,162)	(1,294,841)
Contributions restricted for long-term investment	(10,561,830)	(1,693,883)
Net realized and unrealized gain on investments	(7,323,550)	(10,119,310)
Unrealized gain on interest swaps	(3,942,012)	(6,213,605)
Depreciation and amortization	16,272,882	14,262,966
Loss on sale and/or disposal of property and equipment	2,179,888	341,203
Changes in operating assets and liabilities:		
Receivables and other assets	1,987,672	(354,729)
Pledges receivable	1,393	1,271,270
Allowance for doubtful accounts	8,586	52,286
Accounts payable, accruals and unearned tuition, fees and deposits	1,840,104	(607,500)
Asset retirement obligations	54,581	(595,493)
Accumulated postretirement benefit obligation	(402,242)	(40,815)
Net cash provided by operating activities	<u>27,726,351</u>	<u>19,190,841</u>
Cash flows from investing activities:		
Purchases of property and equipment	(40,175,071)	(25,814,172)
Proceeds from sale of property and equipment	63,896	190,728
Proceeds from funds restricted for property acquisitions	-	466,364
Proceeds from sale of investments	91,673,666	19,062,369
Purchases of investments	(103,020,211)	(18,004,613)
Net student loans advanced	(428,000)	(373,855)
Proceeds from student loans	630,748	625,566
Net cash used in investing activities	<u>(51,254,972)</u>	<u>(23,847,613)</u>
Cash flows from financing activities:		
Net Perkins and other government advances	(39,149)	53,849
Payments for bond issuance costs	-	(445,861)
Change in funds held by trustees	24,813,814	(42,258,711)
Change in obligation on charitable annuity agreements	(3,068,245)	(238,158)
Gifts and bequests restricted for permanent endowment	9,743,039	612,344
Gifts and bequests restricted for acquisition of property and equipment	818,791	1,081,539
Proceeds from issuance of bonds	-	41,310,000
Proceeds from bond premium	-	3,690,680
Principal payments on bonds payable	(4,684,525)	(3,671,975)
Net cash provided by financing activities	<u>27,583,725</u>	<u>133,707</u>
Net increase (decrease) in cash and cash equivalents	4,055,104	(4,523,065)
Cash and cash equivalents at beginning of period	<u>19,836,199</u>	<u>24,359,264</u>
Cash and cash equivalents at end of period	<u>\$ 23,891,303</u>	<u>\$ 19,836,199</u>
Supplemental data:		
Noncash investing activity - Gifts of stock and property	\$ 307,162	\$ 1,294,841
Change in accounts payable from property and equipment	(4,081,362)	2,109,695
Interest paid	5,561,942	3,858,932

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

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 1 – Nature of Business

Wentworth Institute of Technology, Inc. (the "university"), located in Boston, Massachusetts, is a private, coeducational institution founded in 1904 and accredited by the New England Commission of Higher Education, Inc., formerly known as the New England Association of Schools and Colleges among other accrediting bodies. The university provides academic, residential and other services to a diverse student population of approximately 4,400 drawn from schools predominately in the Northeast region of the United States, as well as from approximately 30 U.S. states and 60 foreign countries.

The university's mission and core purpose is to empower, inspire and innovate through experiential learning and offers master's, bachelor's, and associate degrees, in addition to certificate programs. The university participates in student financial aid programs sponsored by the United States Department of Education, the Commonwealth of Massachusetts, and other states within the United States of America, which facilitate the payment of tuition and other expenses for students.

Effective July 24, 2017, the Massachusetts Department of Higher Education granted Wentworth Institute of Technology, Inc. status as a university.

Note 2 – Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and have been prepared to focus on the university as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets include all resources, which are not subject to donor-imposed restrictions of more specific nature than those which only obligate the university to utilize funds in furtherance of its educational mission.

Temporarily Restricted Net Assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds or limitations imposed by law. Temporary restrictions may expire either because of the passage of time or because certain actions are taken by the university which fulfill the restriction.

Permanently Restricted Net Assets are those that are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be retained permanently.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized and unrealized 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 stipulations or law.

Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been met and/or the stipulated time period has elapsed, are reported as net assets released from restrictions between the applicable classes of net assets.

Dividends, interest and net unrealized and realized gains (losses) on investments are reported as follows:

Increases (decreases) in permanently restricted net assets if the terms of the contributions require these to be added to the principal;

Increases (decreases) in temporarily restricted net assets if the terms of the contributions or state law impose restrictions on the current use of the income or net gains; or

Increases (decreases) in unrestricted net assets in all other cases.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies – continued

Nonoperating revenues include permanently restricted gifts, gifts for property and equipment, large estate gifts, deferred giving contributions, investment income and realized and unrealized gains and losses on long-term investments, realized and unrealized gains and losses on interest rate swaps, and net assets released from restrictions for capital acquisitions and the termination of split-interest agreements. To the extent investment income and gains are used for operations as defined by the spending rate policy (see Note 6), they are reclassified as investment income used for operations in the Statements of Activities. All other activity is classified as operating revenue.

Fair Value Measurements

The university reports required types of financial instruments in accordance with the fair value standards on a recurring and nonrecurring basis, depending on the underlying policy for the particular item. Recurring fair value measurements include the university's investment accounts and interest rate swaps. Nonrecurring measurements include pledges, charitable annuity agreements, charitable remainder unitrusts, and asset retirement obligations. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, the university reports certain investments using the net asset value ("NAV") per share as determined by investment managers under the so called "practical expedient." The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying funds. However, it is possible that these redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements, as applicable. Fair value standards also require the university to classify financial instruments (but for those measured using NAV) into a three-level hierarchy, based on the priority of inputs to the valuation technique.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in the values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

The inputs used to measure fair value of an instrument may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For more information on the fair value of the university's financial instruments, see Note 5 – Fair Value and Investments.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies – continued

Cash and Cash Equivalents and Short-Term Investments

The university considers highly-liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash equivalents held by investment managers are considered part of investments given the expectation of near-term reinvestment. The university maintains its cash balances at several financial institutions, which at times may exceed federally insured limits. The university monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Short-term investments consist primarily of publicly-traded fixed income mutual funds and certificates of deposit and are available for general operating purposes. Management reports short-term investments at fair value as determined pursuant to the fair value measurements policy previously in this section utilizing Level 1 or Level 2 inputs as applicable.

Receivables and Other Assets

Receivables and other assets consists of student accounts receivables and third party receivables, charitable remainder unitrusts, prepaid expenses and deposits and are reported at their estimated net realizable value. Management estimates the allowance for uncollectible accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as revenue when received. Accounts receivable are considered past due if any portion of the receivable balance is outstanding for more than 90 days or the student no longer attends the university. Interest is not charged on receivables. Receivables are presented net of allowances for uncollectible accounts of \$500,000 and \$600,000 as of June 30, 2018 and 2017, respectively. Other assets at June 30, 2017 includes \$1,837,530 in a charitable remainder unitrust.

Student Loans Receivable and Government Advances for Student Loans

Student loans receivable are recorded at their estimated net realizable value. Student Perkins loans are funded through Federal government loan programs or institutional resources. University loans is a loan program funded with institutional resources that began in the fall of 2009 and ended in 2011 with terms similar to the Perkins loan program, including forbearance of interest while a student is enrolled full-time at Wentworth or another institute of higher education.

Perkins loans are guaranteed by the Federal government and, therefore, no allowance is made for uncollectible loans. For university loans, management estimates the allowance for credit losses based on historical collection experience and current economic conditions. At June 30, 2018 and 2017, student loans receivable are net of an allowance for doubtful accounts of \$195,156 and \$203,293, respectively.

Effective June 30, 2018, the Perkins Loans program will no longer disburse loans and a portion of the amounts are generally refundable to the Federal government and are recorded as liabilities in the Statements of Financial Position. Interest income is recorded when received. Perkins loans that are in default and meet certain requirements can be assigned to the Department of Education, which reduces the government advances for student loans.

Deposits with Bond Trustees

Deposits with bond trustees are reported at fair value using Level 1 inputs and consist of unexpended debt proceeds and funds held for debt service that have been invested in investment grade money market instruments and have been deposited with trustees as required under certain loan agreements.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies – continued

Pledges Receivable

Pledges receivable are initially recorded at their fair value utilizing Level 2 inputs based on the present value using a risk adjusted discount rate (ranging from 3.01% to 5.66%) to account for the inherent risk associated with the expected future cash flows. Amortization of the discount is included in gift revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections based on history of collections and knowledge acquired about specific facts relating to outstanding items while the initial discount rate is used over the life of the related pledge. Adjustments to the allowance are charged to gift revenue. An account is considered uncollectible when all collection efforts have been exhausted.

Investments

Investments are reported at fair value which is determined pursuant to the fair value measurements policy. Investments include endowment, beneficial interest in perpetual trusts and unrestricted operating investments. Beneficial interest in perpetual trusts, where an outside party serves as trustee, are recorded at fair value when notification of the trust's existence is received and the third-party trustee has provided sufficient reliable information to estimate fair value, net of present value of estimated future payments to beneficiaries. The university utilizes an investment adviser to assist with investment strategies, selection and monitoring, which provides the university access to expertise relative to oversight of its investments.

Property and Equipment

Property and equipment are stated at cost at the date of acquisition, or fair value at the date of donation for contributed assets. Fair value of donated property and equipment is effectively recorded using Level 3 market inputs. Depreciation is computed using the straight-line method over the useful lives of the assets. Maintenance and repairs are expensed as incurred, and improvements are capitalized. When assets are retired or disposed of, the cost and related accumulated depreciation are removed from the accounts, and gains or losses are included in unrestricted net assets. Interest incurred on tax-exempt debt used to finance building construction is added to the cost of the asset, net of the amortization of the bond premium and any income earned on temporarily invested debt proceeds during construction.

Split-Interest Agreements

The university has received interests in split-interest agreements from donors consisting of irrevocable charitable gift annuities held and administered by the university whereby the university is obligated to make specified payments to the donor and other beneficiaries over the agreements' terms. The present value of the estimated future distributions to beneficiaries from these annuity agreements is recorded as a liability as of the dates the agreements are established; the liability is adjusted as distributions are made and for changes in the present value of estimated future distributions. The difference between the assets received and the liability for beneficiary payments is recognized as contribution revenue as of the dates the agreements are established.

The university has received interests in split-interest agreements from donors consisting of irrevocable charitable remainder unitrusts held and administered by others. The present value of the estimated future cash receipts from the trusts are recognized as assets and contribution revenue as of the dates the trusts are established. The carrying amount of the assets are classified as other receivables in the Statements of Financial Position and is adjusted upon the termination of the unitrust and for changes in the estimates of future receipts.

The initially recorded fair value of the donated assets are determined based on the underlying nature of the assets received which have generally represented Level 1 measurements. The initially recorded fair value of liabilities of split-interest agreements have generally represented Level 2 measurements. The present value of estimated future cash receipts and estimated future payments to beneficiaries for split-interest agreements and annuity obligations are calculated using various discount rates (ranging from 3.8% to 8.7%) based on beneficiary life expectancies and other actuarial assumptions.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies – continued

Interest Rate Swap Agreements

The university reports the value of its interest rate swaps at fair value using Level 2 inputs. Net payments or receipts (for the difference between variable and fixed rate) under the swap agreements, are included in interest expense in the Statements of Activities. The change in fair value of the swaps is included in nonoperating net unrealized gain or loss on interest rate swaps.

Asset Retirement Obligations

The university recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred if a reasonable estimate of the fair value of the obligation can be made. Fair value is estimated using Level 3 income and market inputs. When the liability is initially recorded, the university capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded will be recognized as a gain or loss in the Statements of Activities as unrestricted revenues or expenses.

Revenue Recognition and Deposits and Deferred Revenue

A substantial portion of the university's revenue is derived from student tuition and fees and auxiliary enterprises, such as food, housing services and facility rentals provided by the university. Tuition, fees and auxiliary revenue are recognized as revenue in the period in which they are earned. Student reservation deposits along with advance payments for tuition and auxiliary enterprises are recognized as revenue when the related educational services are provided.

Gifts, including unconditional promises to give, are initially recorded as revenue at fair value when verifiably committed. Fair value is determined at the original date of record as earlier described in these notes using a Level 2 fair value measurement. Conditional contributions and intentions to give are recorded as revenue when the conditions have been met. Contributions are reflected as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor restrictions. Amounts received with donor imposed restrictions that are recorded as temporarily restricted revenues are released to unrestricted net assets when the time or purpose restriction has been satisfied.

Functional Allocation of Certain Expenses

The university reports expenses by their functional classification in the Statements of Activities. Operation and maintenance of plant, depreciation and interest have been allocated using percentage of square footage utilized by each functional area. Included in institutional support expenses are costs associated with carrying out the fund-raising activities of the university, which amounted to \$4,247,648 and \$3,476,237 for the years ended June 30, 2018 and 2017, respectively.

Income Tax Status

The university is recognized by the Internal Revenue Service as an organization described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from Federal and state income taxes on related income. Given the limited taxable activities of the university, management concluded that disclosures relative to tax provisions are not necessary.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies – continued

Uncertain Tax Positions

The university accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. The university has identified its tax status as a tax exempt entity and its determinations over which of its revenues are related and unrelated as its only significant tax positions. However, the university has determined that such tax positions do not result in an uncertainty requiring recognition. The university is not currently under examination by any taxing jurisdiction. The university’s Federal and state tax returns are generally open to examination for three years following the date filed.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant management estimates included in the financial statements relate to the allowance for doubtful loans, pledges and accounts receivable, useful lives of depreciable assets, fair value of certain investments, fair value of interest rate swap agreements, obligations under charitable annuity agreements, postretirement benefit obligations, asset retirement obligations, and the allocation of common expenses over program functions, and releases from donor restrictions.

Reclassifications

Certain amounts have been reclassified in the prior year financial statements to conform to the current year presentation.

Subsequent Events

The university has evaluated subsequent events through November 14, 2018, the date the financial statements were issued.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 3 – Student Loans Receivable

Student loans receivable consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Perkins loans	\$ 3,927,764	\$ 4,048,143
University loans	<u>350,336</u>	<u>440,842</u>
Student loans receivable, gross	4,278,100	4,488,985
Less allowance for uncollectible loans:		
Beginning of year	(203,293)	(157,475)
Change in provision for uncollectible loans	<u>8,137</u>	<u>(45,818)</u>
End of year	<u>(195,156)</u>	<u>(203,293)</u>
Student loans receivable, net	<u>\$ 4,082,944</u>	<u>\$ 4,285,692</u>

Loans past due amounted to \$1,176,858 and \$1,094,019 as of June 30, 2018 and 2017, respectively.

Note 4 – Pledges Receivable

Pledges receivable are expected to be realized as follows at June 30:

	<u>2018</u>	<u>2017</u>
Up to one year	\$ 2,242,481	\$ 2,361,778
One to five years	2,110,394	2,136,182
Five to ten years	281,250	81,000
More than ten years	<u>186,000</u>	<u>134,000</u>
	4,820,125	4,712,960
Less present value discount	<u>293,053</u>	<u>184,495</u>
	4,527,072	4,528,465
Less allowance for uncollectibles	<u>197,470</u>	<u>188,884</u>
Pledges receivable, net	<u>\$ 4,329,602</u>	<u>\$ 4,339,581</u>

Conditional promises to give, due to uncertainties with regard to their realization and valuation, are not estimated by management and are recognized as pledges receivable if and when the specific conditions are met.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 5 – Fair Value and Investments

The valuation of the university's financial instruments measured on a recurring basis using the fair value hierarchy consisted of the following at June 30:

2018	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Short-term investments:					
Fixed income funds	\$ 19,046,431	\$ -	\$ -	\$ -	\$ 19,046,431
Certificates of deposits	749,048	-	-	-	749,048
Money market funds	295,836	-	-	-	295,836
Total short-term investments	<u>20,091,315</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,091,315</u>
Deposits with bond trustees:					
Money market funds	17,444,897	-	-	-	17,444,897
Total deposits with bond trustees	<u>17,444,897</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,444,897</u>
Endowment investments:					
Cash and cash equivalents	2,427,241	-	-	-	2,427,241
U.S. equity funds	26,868,609	-	-	-	26,868,609
Global equity funds	-	-	-	11,120,763	11,120,763
International equity funds	9,682,087	-	-	6,584,000	16,266,087
Emerging markets equity funds	4,843,300	-	-	-	4,843,300
Fixed income funds	10,093,968	-	-	11,329,986	21,423,954
Hedge funds	-	-	-	15,525,807	15,525,807
Public real asset funds	5,495,308	-	-	-	5,495,308
Private real asset funds	-	-	-	1,591,155	1,591,155
Private equity funds	-	-	-	7,071,735	7,071,735
Total endowment investments	<u>59,410,513</u>	<u>-</u>	<u>-</u>	<u>53,223,446</u>	<u>112,633,959</u>
Other investments:					
Beneficial interest in perpetual trusts	1,912,754	-	701,244	-	2,613,998
Supplemental retirement plans	322,789	-	-	-	322,789
Total other investments	<u>2,235,543</u>	<u>-</u>	<u>701,244</u>	<u>-</u>	<u>2,936,787</u>
Total investments	<u>61,646,056</u>	<u>-</u>	<u>701,244</u>	<u>53,223,446</u>	<u>115,570,746</u>
Total	<u>\$ 99,182,268</u>	<u>\$ -</u>	<u>\$ 701,244</u>	<u>\$ 53,223,446</u>	<u>\$ 153,106,958</u>
Liabilities:					
Obligation on interest rate swap agreements	<u>\$ -</u>	<u>\$ 6,050,076</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,050,076</u>

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 5 – Fair Value and Investments – continued

2017	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Short-term investments:					
Fixed income funds	\$ 18,747,909	\$ -	\$ -	\$ -	\$ 18,747,909
Certificates of deposits	999,045	-	-	-	999,045
Money market funds	21,909	-	-	-	21,909
Total short-term investments	<u>19,768,863</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,768,863</u>
Deposits with bond trustees:					
Money market funds	42,258,711	-	-	-	42,258,711
Total deposits with bond trustees	<u>42,258,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,258,711</u>
Endowment investments:					
Cash and cash equivalents	295,270	-	-	-	295,270
U.S. equity funds	18,122,831	-	-	3,365,735	21,488,566
International equity funds	6,640,834	-	-	7,101,123	13,741,957
Emerging markets funds	6,493,345	-	-	-	6,493,345
Fixed income funds	8,555,913	-	-	4,253,389	12,809,302
Hedge funds	1,117,051	-	-	22,104,743	23,221,794
Public real asset funds	6,782,920	-	-	-	6,782,920
Private real asset funds	-	-	-	3,793,789	3,793,789
Private equity funds	-	-	-	5,465,412	5,465,412
Total endowment investments	<u>48,008,164</u>	<u>-</u>	<u>-</u>	<u>46,084,191</u>	<u>94,092,355</u>
Other investments:					
Beneficial interest in perpetual trusts	1,869,654	-	669,932	-	2,539,586
Supplemental retirement plans	284,001	-	-	-	284,001
Total other investments	<u>2,153,655</u>	<u>-</u>	<u>669,932</u>	<u>-</u>	<u>2,823,587</u>
Total investments	<u>50,161,819</u>	<u>-</u>	<u>669,932</u>	<u>46,084,191</u>	<u>96,915,942</u>
Total	<u>\$ 112,189,393</u>	<u>\$ -</u>	<u>\$ 669,932</u>	<u>\$ 46,084,191</u>	<u>\$ 158,943,516</u>
Liabilities:					
Obligation on interest rate swap agreements	<u>\$ -</u>	<u>\$ 9,992,088</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,992,088</u>

Private equity and venture funds have unfunded commitments of \$10,534,413 at June 30, 2018.

At June 30, 2018 and 2017, the university had \$22,924,112 and \$16,699,675, respectively, of investments measured at NAV with redemption periods of 90 days or less, and \$30,299,334 and \$29,384,516, respectively, with redemption periods of over 90 days.

Beneficial interests in perpetual trusts included in Level 3 consist of trusts with marketable underlying investments; however, the university's share of the trust is not marketable.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 5 – Fair Value and Investments – continued

Total return on investments consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Investment income, net of fees	\$ 948,529	\$ 1,083,881
Net realized gains	19,593,294	1,845,333
Net unrealized gains (losses)	<u>(12,282,764)</u>	<u>8,240,064</u>
Total return on investments	<u>\$ 8,259,059</u>	<u>\$ 11,169,278</u>

The following is a reconciliation of total investment return to amounts reported in the Statements of Activities for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Total return on investments	\$ 8,259,059	\$ 11,169,278
Bank interest, net of fees	236,327	100,801
Other	<u>782</u>	<u>11,198</u>
Total	<u>\$ 8,496,168</u>	<u>\$ 11,281,277</u>
	<u>2018</u>	<u>2017</u>
Per Statements of Activities		
Operating		
Interest income	\$ 595,942	\$ 384,101
Net realized and unrealized loss on short-term investments	(31,061)	(172,858)
Nonoperating		
Investment income	588,914	800,581
Net realized and unrealized gain on investments	<u>7,342,373</u>	<u>10,269,453</u>
Total	<u>\$ 8,496,168</u>	<u>\$ 11,281,277</u>

Management, advisory, and performance fees were \$308,429 and \$492,592 for the years ended June 30, 2018 and 2017, respectively, and are netted with realized and unrealized gains or losses. Certain investment managers net their investment fees against returns, and accordingly, such amounts are not included in the aforementioned fees.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 5 – Fair Value and Investments – continued

The following table presents the university's changes in perpetual trusts for the years ended June 30, 2018 and 2017 for investments measured at fair value on a recurring basis using unobservable inputs (Level 3):

	Investments nonpooled
Balance as of June 30, 2016	\$ 628,672
Net unrealized gains	41,260
Balance as of June 30, 2017	669,932
Net unrealized gains	31,312
Balance as of June 30, 2018	\$ 701,244

Note 6 – Endowment Investments

The university's endowment consists of approximately 139 donor-restricted and 11 board-restricted individual funds established for a variety of purposes. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the university has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") enacted in Massachusetts, as requiring the preservation of the original value of a gift of funds with permanent restrictions, absent explicit donor stipulations to the contrary. As a result of this interpretation, the university classifies the following as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The accumulated unspent gains associated with the donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the university in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the university considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the university and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the university
- The investment policies of the university

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 6 – Endowment Investments – continued

Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the university to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$74,883 at June 30, 2018. There were no funds with deficiencies at June 30, 2017. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters

The university's endowment is managed to provide for the long-term support of the university. Accordingly, these funds are managed with disciplined longer-term investment objectives and strategies designed to meet cash flow and spending requirements. Management of the assets is designed to attain a total return that exceeds the spending rate plus inflation. The intent of this objective is to preserve, over time, the principal value of the assets as measured in inflation-adjusted terms.

Spending Policy

It is the university's policy to distribute annually up to 5% of a trailing three-year average fair value of the endowment. This spending rate was adopted by the Board of Trustees in order to protect the inviolate nature of the original corpus of gifts, as well as to preserve the purchasing power of these funds into the future. Units in the pool are assigned on the basis of market value at the time funds to be invested are received, and income is distributed quarterly thereafter on a per-unit basis. All realized and unrealized gains and losses arising from pooled investments are allocated to participating funds based on their respective number of units held on a quarterly basis. Permanently restricted individual endowed funds with a deficiency as of June 30 will receive no distribution in the subsequent fiscal year.

The Board of Trustees has designated only a portion of the university's Board-designated endowment funds for support of current operations and did not apply the full 5% draw in 2018 and 2017. The distribution from the unrestricted endowment and the permanent endowment is estimated to be \$3,360,000 and \$1,450,000, respectively, for the year ending June 30, 2019. However, the Board retains the discretion to modify its spending or transfer additional Board-designated endowment funds for other institutional purposes beyond the originally budgeted amount of spending.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the university relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The university targets an asset allocation strategy wherein assets are diversified among several asset classes. The pursuit of maximizing total return is tempered by the need to minimize the volatility of returns and preserve capital. As such, the university seeks broad diversification among assets having different characteristics with the intent to endure lower relative performance in strong markets in exchange for greater downside protection in weak markets.

Under the university's total return policy, during periods when endowment investment return exceeds the distribution, such excess return is added to the endowment funds as unrestricted and temporarily restricted net assets depending if the underlying funds have restrictions. Conversely, when endowment investment return is less than the distribution, such deficit is funded by accumulated excess return of the respective funds with unrestricted funds being charged if no accumulated unspent gains remain.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 6 – Endowment Investments – continued

The following is the composition of endowment assets and those functioning as endowment assets by net asset class as of June 30:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
June 30, 2018				
Donor-restricted endowment funds	\$ (74,883)	\$ 10,775,673	\$ 26,726,307	\$ 37,427,097
Board-designated endowment funds	75,206,862	-	-	75,206,862
Total endowment as of June 30, 2018	<u>\$ 75,131,979</u>	<u>\$ 10,775,673</u>	<u>\$ 26,726,307</u>	<u>\$ 112,633,959</u>
June 30, 2017				
Donor-restricted endowment funds	\$ -	\$ 10,096,008	\$ 16,981,716	\$ 27,077,724
Board-designated endowment funds	67,014,631	-	-	67,014,631
Total endowment as of June 30, 2017	<u>\$ 67,014,631</u>	<u>\$ 10,096,008</u>	<u>\$ 16,981,716</u>	<u>\$ 94,092,355</u>

Changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Endowment as of July 1, 2016	\$ 59,576,941	\$ 8,181,993	\$ 16,353,903	\$ 84,112,837
Gifts and additions	7,509	11,573	627,813	646,895
Return on endowment				
Interest and dividends, net of fees	538,133	225,111	-	763,244
Net realized and unrealized gain	7,146,715	2,917,012	-	10,063,727
Expenditures				
Investment income used for operations	(254,667)	(1,239,681)	-	(1,494,348)
Endowment as of June 30, 2017	67,014,631	10,096,008	16,981,716	94,092,355
Gifts and additions	2,617,695	6,531	9,744,591	12,368,817
Reclassifications	339,578	(339,578)	-	-
Return on endowment				
Interest and dividends, net of fees	402,807	177,802	-	580,609
Net realized and unrealized gain	4,988,560	2,212,355	-	7,200,915
Expenditures				
Investment income used for operations	(231,292)	(1,377,445)	-	(1,608,737)
Endowment as of June 30, 2018	<u>\$ 75,131,979</u>	<u>\$ 10,775,673</u>	<u>\$ 26,726,307</u>	<u>\$ 112,633,959</u>

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 7 – Property and Equipment

Property and equipment consist of the following at June 30:

	Estimated Useful Life in Years	2018	2017
Land		\$ 13,392,323	\$ 13,392,323
Buildings and building improvements	20 to 40	306,030,838	296,608,658
Equipment	2 to 10	43,769,062	47,734,185
Land improvements	10 to 20	7,042,254	7,025,254
Construction in progress		37,901,754	8,209,738
		<u>408,136,231</u>	<u>372,970,158</u>
Less accumulated depreciation		<u>(167,885,870)</u>	<u>(158,457,645)</u>
Property and equipment, net		<u>\$ 240,250,361</u>	<u>\$ 214,512,513</u>

Depreciation expense was \$16,151,778 and \$14,150,532 for the years ended June 30, 2018 and 2017, respectively. The university capitalized interest of \$1,592,316 and \$673,208 during the years ended June 30, 2018 and 2017, respectively.

The university disposed of \$8,968,387 and \$3,300,704 of property and equipment with accumulated depreciation of \$6,724,603 and \$2,768,773 in the years ended June 30, 2018 and 2017, respectively. A net loss on asset disposal of \$2,179,888 and \$341,203, net of proceeds of \$63,896 and \$190,728, was included in the Statements of Activities and allocated all to Institutional support for the years ended June 30, 2018 and 2017, respectively. Net proceeds from an insurance claim for property damage of \$928,687 was included in other income in the Statements of Activities for the year ended June 30, 2017.

Note 8 – Asset Retirement Obligations

A liability for conditional asset retirement obligations related to environmental contamination is reported on the Statements of Financial Position at June 30, 2018 and 2017. In fiscal years 2018 and 2017, the university recognized a loss of \$13,637 and a gain of \$215,853, respectively, due to differences between actual and original estimated asset retirement obligations. In fiscal year 2017, the university incurred \$417,374 in costs related to the abatement of asset retirement obligations previously accrued. Interest accretion costs were \$40,944 and \$37,734 for the years ended June 30, 2018 and 2017, respectively. The activity for asset retirement obligations was included in the Statements of Activities and allocated among functional expenses for the years ended June 30, 2018 and 2017.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 9 – Pension and Postretirement Benefit Plans

Pension Plan

The university sponsors a defined contribution plan under IRC Section 403(b). The plan covers all employees who meet eligibility requirements. Contributions to the plan are made by the university at 10% of an employee's salary. Employees make voluntary deferred salary contributions to the plan subject to statutory limits. Total pension expense for the plan was \$4,018,832 and \$3,731,829 for the years ended June 30, 2018 and 2017, respectively.

Supplemental Retirement Plan

The university sponsors a deferred compensation plan under IRC Section 457(b) for the purpose of providing deferred compensation to allow a select group of employees to accumulate retirement assets. The university held assets of \$322,789 and \$284,001 at June 30, 2018 and 2017, respectively, associated with these agreements within the investment category and are designated by the university to pay future deferred compensation liabilities included in accrued expenses in the Statements of Financial Position.

Postretirement Benefit Plan

The university provides certain medical and dental benefits for substantially all former employees who retired after attaining specific age and service requirements. The cost of providing these benefits is shared with the retiree, and the university has capped the subsidy it provides to retirees at the level in effect since 1993. The plan was amended in 2001 to include only eligible employees that had achieved fifty years of age and ten years of service at the university at December 31, 2001. Employees who did not meet these criteria and employees hired after December 31, 2001 are not eligible for retiree benefits. The plan is unfunded. The estimated expected contribution for the year ending June 30, 2019 is \$229,000.

The funded status of the plan is as follows at June 30:

	<u>2018</u>	<u>2017</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contribution	208,637	203,696
Plan participants' contributions	341,325	325,148
Benefits paid	(507,388)	(493,548)
Allocation for expected benefit payments (implicit subsidy)	<u>(42,574)</u>	<u>(35,296)</u>
Fair value of plan assets at end of year	-	-
Change in benefit obligation		
Accumulated postretirement benefit obligation at beginning of year	2,558,235	2,599,050
Interest cost	103,279	98,843
Plan participants' contributions	341,325	325,148
Benefits paid	(549,962)	(528,844)
Actuarial (gain) loss	<u>(296,884)</u>	<u>64,038</u>
Accumulated postretirement benefit obligation at end of year	<u>2,155,993</u>	<u>2,558,235</u>
Funded status at end of year	<u>\$ (2,155,993)</u>	<u>\$ (2,558,235)</u>

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 9 – Pension and Postretirement Benefit Plans – continued

Net periodic postretirement benefit cost consists of the following at June 30:

	2018	2017
Interest cost on accumulated postretirement benefit obligation	\$ 103,279	\$ 98,843
Amortization of net actuarial loss	112,497	118,448
Net periodic postretirement benefit cost	\$ 215,776	\$ 217,291

For measurement purposes, a 5.00% annual rate of increase in the per capita cost of covered dental benefits was assumed for 2018 and 2017. The medical premiums currently exceed the maximum monthly employer subsidy; therefore, a trend rate no longer applies to the medical benefits.

The effect of a 1% increase in the health care cost trend rate is an increase of \$166,230 in the accumulated postretirement benefit obligation and an increase of \$9,031 in the service and interest cost components of the net postretirement benefit. The effect of a 1% decrease in the health care cost trend rate is a decrease of \$145,757 in the accumulated postretirement benefit obligation and a decrease of \$7,854 in the service and interest cost components of the net postretirement benefit.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 4.50% and 4.25% as of June 30, 2018 and 2017, respectively.

Estimated future benefit payments, net of participant contributions, are as follows:

Year Ending June 30,	Amounts Due
2019	\$ 229,000
2020	214,000
2021	204,000
2022	194,000
2023	184,000
2024 through 2028	780,000
Total	\$ 1,805,000

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 10 – Bonds Payable and Interest Rate Swap Agreements

Bonds payable, consisting entirely of various issues of Massachusetts Development Finance Agency, are as follows at June 30:

	Maturity	Type	Interest Rate		2018	2017
			2018	2017		
2017 Issue	10/1/2046	Fixed	5.00%	5.00%	\$ 40,700,000	\$ 41,310,000
2015A Issue	10/1/2033	Variable	2.04%	1.43%	30,280,000	31,955,000
2015B Issue	10/1/2035	Variable	2.04%	1.43%	10,910,000	10,990,000
2013A Issue	9/1/2044	Variable	2.39%	1.73%	41,215,507	42,265,032
2013B Issue	10/1/2030	Variable	2.39%	1.73%	18,996,667	20,266,667
					142,102,174	146,786,699
Unamortized premium					3,516,396	3,639,420
Bond issuance costs, net					(1,070,583)	(1,191,687)
Total bonds payable					\$ 144,547,987	\$ 149,234,432

An original issue premium of \$3,690,680 was received on the issuance of the Series 2017 bonds and is being amortized on the straight-line basis over the life of the bond.

Bond issuance costs are capitalized and amortized on the straight-line basis over the life of the bonds. Bond issuance costs of \$1,582,824 are included in bonds payable, net of accumulated amortization of \$512,241 and \$391,137, at June 30, 2018 and 2017, respectively. Amortization expense was \$121,104 and \$112,434 for the years ended June 30, 2018 and 2017, respectively.

All of the bonds contain certain restrictive covenants, including limitations on obtaining additional debt, restrictions on the sale of assets, submission of annual audited financial statements, and are collateralized by the university's unrestricted revenue. Certain bonds also contain additional restrictive covenants to meet debt service coverage and liquidity ratios.

The required principal amounts to be paid on the bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Amounts Due</u>
2019	\$ 4,781,424
2020	4,934,094
2021	5,118,685
2022	5,321,198
2023	5,507,972
Thereafter	116,438,801
Total	\$ 142,102,174

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 10 – Bonds Payable and Interest Rate Swap Agreements – continued

Interest Rate Swap Agreements

The university uses interest rate swaps to manage interest rate risk exposure. The university's interest rate swaps effectively mitigate exposure to interest rate risk, primarily through converting portions of floating rate debt under the bond agreement to a fixed rate basis. These agreements involve the receipt or payment of floating rate amounts in exchange for making fixed rate interest payments over the life of the agreements without an exchange of the underlying principal amounts. The university does not enter into derivative instruments for trading or speculative purposes. All of the university's interest rate swaps have been recorded in the Statements of Financial Position at fair value. Changes in fair value are recorded as nonoperating net unrealized gain (loss) on interest rate swaps in the Statements of Activities.

As a result of the use of derivative instruments, the university is exposed to the risk that the counterparties will fail to meet their contractual obligations. To mitigate the counterparty risk, the university only enters into contracts with selected major financial institutions based upon their credit ratings and other factors, and continually assesses the creditworthiness of counterparties. The counterparties to the university's interest rate swaps had investment grade ratings at June 30, 2018 and 2017. The interest rate swap agreements contain provisions in which the counterparty could elect to terminate the agreement should the credit rating of the university or affiliated entities to the swap fall below investment grade. If this were to occur, the university could be required to terminate the swap agreement at its then fair value, which could result in the potential for cash outflows or the posting of a collateral account depending on the fair value of the swap at the time of the termination of the agreement. The agreements also require the posting of collateral by the university if the mark to market swap liability exceeds a certain threshold. No such requirements were triggered as of June 30, 2018 and 2017.

The university had the following swaps outstanding at June 30:

Interest Rate Received	2018			
	Interest Rate Paid	Termination Date	Remaining Notional Amount	Fair Value Asset (Liability)
USD-LIBOR-BBA x 0.72 (.08%)	1.75%	2/1/2023	\$ 40,768,490	\$ 335,900
USD-LIBOR-BBA x 0.67 (.08%)	3.30%	10/1/2030	9,390,000	(832,290)
USD-LIBOR-BBA x 0.67 (.08%)	3.57%	10/1/2033	30,280,000	(3,981,355)
USD-LIBOR-BBA x 0.67 (.08%)	3.62%	10/1/2035	10,910,000	(1,572,331)
Total			<u>\$ 91,348,490</u>	<u>\$ (6,050,076)</u>

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 10 – Bonds Payable and Interest Rate Swap Agreements – continued

2017				
Interest Rate Received	Interest Rate Paid	Termination Date	Remaining Notional Amount	Fair Value (Liability)
USD-LIBOR-BBA x 0.72 (.08%)	1.75%	2/1/2023	\$ 41,815,032	\$ (873,042)
USD-LIBOR-BBA x 0.67 (.08%)	3.30%	10/1/2030	9,950,000	(1,281,475)
USD-LIBOR-BBA x 0.67 (.08%)	3.57%	10/1/2033	31,600,000	(5,643,946)
USD-LIBOR-BBA x 0.67 (.08%)	3.62%	10/1/2035	11,345,000	(2,193,625)
Total			<u>\$ 94,710,032</u>	<u>\$ (9,992,088)</u>

The university is required to maintain certain funds with the bond trustees. Funds held by bond trustees were as follows at June 30:

	2018	2017
Debt service funds:		
2013A Issue	\$ 172,609	\$ 150,628
2013B Issue	140,819	125,698
Project funds:		
2017 Issue	17,131,469	41,982,385
Total	<u>\$ 17,444,897</u>	<u>\$ 42,258,711</u>

Interest income on the project funds amounted to \$444,961 and \$150,085 in 2018 and 2017, respectively, and is offset against interest costs for purposes of determining amounts to capitalize in connection with construction.

Note 11 – Commitments and Contingencies

The university is committed under long-term operating leases for the rental of certain equipment and under long-term agreements for receipt of certain services. The commitments expire at various dates through June 30, 2021. Rental and service expenses incurred under the operating leases and service agreements were \$3,389,317 and \$3,205,927 for the years ended June 30, 2018 and 2017, respectively.

Minimum annual commitments under these agreements are as follows:

Year Ending June 30,	Commitments
2019	\$ 2,990,084
2020	2,670,915
2021	234,529
Total minimum commitments	<u>\$ 5,895,528</u>

The university has outstanding commitments from construction contracts of approximately \$15,100,000 at June 30, 2018 (see Note 12).

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 11 – Commitments and Contingencies – continued

The university is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot be determined, the university believes that an eventual liability, if any, will not have a material effect on the university's financial position.

The university participates in the Massachusetts Institute Savings Prepaid Tuition Program. This program allows participants to lock in tuition prices by limiting future increases to the changes in Consumer Price Index plus 2%. This could result in discounts on tuition charged to students in the future.

All funds expended by the university in connection with government grants are subject to review or audit by governmental agencies. There were no reviews or audits in process by governmental agencies as of June 30, 2018.

The university has a number of other agreements with organizations and schools offering a number of opportunities and advantages for students. One such agreement provides access to academic programs and co-curricular activities at four other colleges in direct proximity to the university's campus.

The university has an employment agreement with its president through May 2019 that stipulates a variety of business terms typical in the education sector.

Certain faculty, physical plant, and public safety employees of the university are subject to collective bargaining agreements which expire April 30, 2019, June 30, 2019, and December 31, 2019, respectively.

The university has a partially self-insured medical plan (the "Plan") for certain medical benefits covering employees and certain retirees. The Plan is self-insured, with stop-loss insurance providing coverage for claims in excess of \$125,000 per participant in a calendar year, up to a lifetime stop-loss coverage limit of \$1,000,000 per participant. An accrual of \$324,000 and \$270,000 was recorded for benefit claims incurred but not reported at June 30, 2018 and 2017, respectively.

The university participates in a self-insured health insurance captive (the "Captive") in order to manage its health insurance costs. The university is an equity participant in the Captive that currently includes thirteen other educational institutions. As a participant, the university is liable for its pro-rata share of any losses beyond the Captive's ability to fund such losses after total participants' equity is liquidated. Management believes the Captive is sufficiently capitalized and does not expect liabilities from this arrangement.

The university participates in a workers' compensation self-insured group (the "Group"). Workers' compensation expense is determined based on annual premiums less dividends received plus the university's prorated share of any excess of liabilities, if applicable. Net expense under the Group was \$214,575 and \$231,177 for the years ended June 30, 2018 and 2017, respectively.

Specific excess reinsurance has been purchased to provide for statutory benefits and \$1,000,000 employer's liability, subject to a \$500,000 per occurrence retention.

The university is jointly and severally liable, in connection with the workers' compensation self-insured group, for the following:

- Any unfunded obligation of the Group which it may become legally obligated to pay, in respect to any fund year or part thereof that the university participated in the Group.
- All necessary assessments and charges, as determined by the Group trustee, to be paid into the Group at required intervals.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 12 – Related Party Transactions

Members of the university's Board of Trustees may, from time to time, be associated, either directly or indirectly, with companies doing business with the university. The university has a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees may participate in any decision in which he or she has a material financial interest. Each trustee is required to certify compliance with the conflict of interest policy on an annual basis as well as disclose any potential related-party transactions to the Board of Trustees. When such a relationship exists, the university requires that any such transactions be conducted at arms' length, with terms that are fair and reasonable to and for the benefit of the university.

The university expended \$27,834,528 for a construction contract for the year ended June 30, 2018 and has an outstanding construction contract of approximately \$15,100,000 at June 30, 2018, with a company whose employee is a trustee of the university.

Note 13 – Net Assets

Unrestricted Net Assets

Unrestricted net assets are comprised of the following:

Net investment in plant is the value of buildings and equipment after accumulated depreciation and associated debt, net of deposits with bond trustees.

Board-designated are funds added to the endowment by the Board of Trustees to provide investment income to support operations. These amounts may only be used with the approval of the Board of Trustees.

	2018	2017
Undesignated	\$ 7,716,819	\$ 1,776,351
Net investment in plant	112,451,216	106,895,318
Board-designated funds operating as endowment	75,206,862	67,014,631
Endowment unrealized losses	(74,883)	-
Unrestricted net assets	\$ 195,300,014	\$ 175,686,300

Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following at June 30:

Net realized and unrealized gains on investments, in accordance with GAAP and UPMIFA, represents unappropriated net gains on permanently restricted endowment investments.

Scholarships represent amounts received with donor restrictions for student scholarships which have not yet been expended for their designated purposes.

Instruction represents amounts received with donor restrictions for instructional purposes which have not yet been expended for their designated purposes.

Physical plant represents amounts received with donor restrictions for capital additions and improvements which have not yet been expended for their designated purposes.

Other represents amounts received with donor restrictions for various purposes which have not yet been expended for their designated purposes.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 13 – Net Assets – continued

Split-interest agreements represent future interests in trusts received with donor restrictions for various purposes which have not yet been expended for their designated purposes.

Pledges, net represents pledges received with donor restrictions for various purposes which have not yet been expended for their designated purposes.

	2018	2017
Accumulated unspent gains on permanently restricted:		
Scholarships	\$ 8,435,143	\$ 7,566,877
Instruction	2,220,860	2,020,779
Physical plant	173,884	144,612
Other	162,580	33,685
Total accumulated unspent gains	10,992,467	9,765,953
Purpose restricted:		
Scholarships	444,670	937,924
Instruction	1,218,458	1,007,217
Physical plant	234,567	131,314
Other	422,173	554,120
Split-interest agreements	-	2,377,402
Pledges, net	3,144,106	2,967,338
Total purpose restricted	5,463,974	7,975,315
Temporarily restricted net assets	\$ 16,456,441	\$ 17,741,268

Permanently Restricted Net Assets

Permanently restricted net assets are comprised of the following at June 30:

Scholarships represents amounts restricted by donors against any expenditure of principal. Substantially all the income earned on principal is to be used for student scholarships and is recorded in temporarily restricted net assets until appropriated for expenditure.

Instruction represents amounts restricted by donors against any expenditure of principal. Substantially all the income earned on principal is to be used for instructional purposes and is recorded in temporarily restricted net assets until appropriated for expenditure.

Physical plant represents amounts restricted by donors against any expenditure of principal. Substantially all the income earned on principal is to be used for physical plant expenditures and is recorded in temporarily restricted net assets until appropriated for expenditure.

Other represents amounts restricted by donors against any expenditure of principal. Substantially all the income earned on principal is to be used for various purposes and is recorded in temporarily restricted net assets until appropriated for expenditure.

WENTWORTH INSTITUTE OF TECHNOLOGY, INC.
Notes to Financial Statements

Note 13 – Net Assets – continued

Other trusts represent funds invested with third parties; the earnings on which are spent for various purposes.

Pledges, net represents pledged amounts restricted by donors against any expenditure of principal. Substantially all the income earned on principal is to be used for various purposes and is recorded in temporarily restricted net assets until appropriated for expenditure.

	2018	2017
Endowed funds – scholarships	\$17,122,614	\$13,675,971
Endowed funds – instruction	8,786,384	2,488,436
Endowed funds – physical plant	651,000	651,000
Endowed funds – other	166,309	166,309
Other trusts	2,397,203	2,365,893
Pledges, net	1,185,496	1,372,243
Permanently restricted net assets	\$30,309,006	\$20,719,852

Increases or decreases in fair value associated with other trusts are reflected as permanently restricted given that appropriation of such gains is under the control of a third party.

Net Assets Released from Restrictions

Net assets were released from donor restrictions as a result of the incurrence of expenses satisfying the restricted purposes, the occurrence of events specified by donors or by the change of restrictions specified by the donors. Net assets released from restriction were for the following purposes for the years ended June 30:

	2018	2017
Scholarships	\$ 1,953,678	\$ 1,252,298
Instruction	329,957	173,922
Physical plant	26,805	17,897
Other	268,484	156,410
Total operating net assets released from restrictions	\$ 2,578,924	\$ 1,600,527
Instruction	\$ 5,618	\$ 128,614
Split-interest agreements	2,402,274	-
Physical plant	845,123	2,705,056
Other	128,321	-
Total nonoperating net assets released from restrictions	\$ 3,381,336	\$ 2,833,670