Financial Statements

Franklin W. Olin College of Engineering, Inc.

June 30, 2009 and 2008

Mayer Hoffman McCann P.C.
An Independent CPA Firm
Tofias New England Division

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Financial Statements

Table of Contents

Financial Statements:

Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 21

Mayer Hoffman McCann P.C.
An Independent CPA Firm
Tofias New England Division
350 Massachusetts Avenue
Cambridge, MA 02139
Tel: 617.761.0703 Fax: 617.761.0601
www.mhm-pc.com

Independent Auditors' Report

The Board of Trustees
Franklin W. Olin College of Engineering, Inc.
Needham, Massachusetts

We have audited the accompanying statement of financial position of Franklin W. Olin College of Engineering, Inc. (the "College") as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Franklin W. Olin College of Engineering, Inc. as of June 30, 2008 were audited by other auditors, Tofias PC, whose shareholders became shareholders of Mayer Hoffman McCann P.C. as of December 31, 2008, and whose report dated October 8, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Franklin W. Olin College of Engineering, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

November 10, 2009
Cambridge, Massachusetts

FRANKLIN W. OLIN COLLEGE OF ENGINEERING

Statements of Financial Position
(in thousands)

	June 30, 2009	June 30, 2008
Assets		
Cash and cash equivalents	$ 1,575	$ 685
Accounts receivable, net	702	516
Contributions receivable, net	225	190
Prepaid expenses and other assets	647	730
Employee loans receivable, net	28	423
Trusteed funds held for debt service and construction, at fair value	2,501	2,768
Unamortized bond issuance costs	2,464	1,733
Long-term investments, at fair value	328,106	469,182
Long-term investments, facilities renewal and replacement fund	554	388
Plant and equipment, net	120,281	124,989
Total assets	**$ 457,083**	**$ 601,604**
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 4,173	$ 4,359
Deferred revenue and deposits	247	613
Bonds payable, net	158,831	157,982
Interest rate agreements	14,785	2,689
Total liabilities	**178,036**	**165,643**
Net assets:		
Unrestricted	11,821	13,541
Temporarily restricted	265,135	420,465
Permanently restricted	2,091	1,955
Total net assets	**279,047**	**435,961**
Total liabilities and net assets	**$ 457,083**	**$ 601,604**

See Independent Auditors' Report and accompanying notes to the financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Activities
(in thousands)

Years Ended June 30,

	2009				2008
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*Total*
Operating revenues					
Tuition and fees	$ 11,125	$ -	$ -	$ 11,125	$ 10,228
Room and board	3,805	-	-	3,805	3,433
Less: Student aid	(10,898)	-	-	(10,898)	(10,116)
Student revenues, net	4,032	-	-	4,032	3,545
Contributions	406	285	-	691	8,450
Government grants and other contracts	1,292	-	-	1,292	1,717
Other	1,096	6	-	1,102	1,496
Net assets released for Olin Endowment spending	22,100	-	-	22,100	24,645
Net assets released for other purpose restrictions	917	(917)	-	-	-
Net assets released for depreciation	4,202	-	-	4,202	4,392
Total operating revenues	**34,045**	**(626)**	**-**	**33,419**	**44,245**
Operating expenses					
Instruction	10,582	-	-	10,582	11,080
Research	1,255	-	-	1,255	1,383
Academic support	3,104	-	-	3,104	3,223
Student services	11,558	-	-	11,558	12,151
Sponsored programs	1,833	-	-	1,833	2,337
Development and fundraising	734	-	-	734	375
Institutional support	7,410	-	-	7,410	7,209
Total operating expenses	**36,476**	**-**	**-**	**36,476**	**37,758**
Change in net assets from operating activities	**(2,431)**	**(626)**	**-**	**(3,057)**	**6,487**
Nonoperating activities					
Contributions, net	-	-	136	136	31
Interest and dividend income	981	5,761	-	6,742	8,280
Net realized and unrealized gain (loss) on long-term investments	(154)	(124,458)	-	(124,612)	(8,944)
Net assets released for Olin Endowment spending	-	(22,100)	-	(22,100)	(24,645)
Net assets released for depreciation	-	(4,202)	-	(4,202)	(4,392)
Write-off unamortized bond issue costs	-	-	-	-	(2,684)
Change in fair value of interest rate agreement	(9,821)	-	-	(9,821)	(8,181)
Net assets released for change in fair value of interest rate agreement	9,821	(9,821)	-	-	-
Reclassification for endowment losses exceeding corpus	(116)	116	-	-	-
Change in net assets from nonoperating activities	**711**	**(154,704)**	**136**	**(153,857)**	**(40,535)**
Change in net assets	**(1,720)**	**(155,330)**	**136**	**(156,914)**	**(34,048)**
Net assets, beginning of year	13,541	420,465	1,955	435,961	470,009
Net assets, end of year	**$ 11,821**	**$ 265,135**	**$ 2,091**	**$ 279,047**	**$ 435,961**

See Independent Auditors' Report and accompanying notes to financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Activities
(in thousands)

Year Ended June 30, 2008

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Operating revenues				
Tuition and fees	$ 10,228	$ -	$ -	$ 10,228
Room and board	3,433	-	-	3,433
Less: Student aid	(10,116)	-	-	(10,116)
Student revenues, net	3,545	-	-	3,545
Contributions	256	8,194	-	8,450
Government grants and other contracts	1,717	-	-	1,717
Other	1,060	436	-	1,496
Net assets released for Olin Endowment spending	24,645	-	-	24,645
Net assets released for other purpose restrictions	936	(936)	-	-
Net assets released for depreciation	4,392	-	-	4,392
Total operating revenues	**36,551**	**7,694**	**-**	**44,245**
Operating expenses				
Instruction	11,080	-	-	11,080
Research	1,383	-	-	1,383
Academic support	3,223	-	-	3,223
Student services	12,151	-	-	12,151
Sponsored programs	2,337	-	-	2,337
Development and fundraising	375	-	-	375
Institutional support	7,209	-	-	7,209
Total operating expenses	**37,758**	**-**	**-**	**37,758**
Change in net assets from operating activities	**(1,207)**	**7,694**	**-**	**6,487**
Nonoperating activities				
Contributions, net	-	-	31	31
Interest and dividend income	892	7,388	-	8,280
Net realized and unrealized gain (loss) on long-term investments	(14)	(8,930)	-	(8,944)
Net assets released for Olin Endowment spending	-	(24,645)	-	(24,645)
Net assets released for depreciation	-	(4,392)	-	(4,392)
Write-off unamortized bond issue costs	(2,684)	-	-	(2,684)
Change in fair value of interest rate agreement	(8,181)	-	-	(8,181)
Net assets released for change in fair value of interest rate agreement	8,181	(8,181)	-	-
Change in net assets from nonoperating activities	**(1,806)**	**(38,760)**	**31**	**(40,535)**
Change in net assets	**(3,013)**	**(31,066)**	**31**	**(34,048)**
Net assets, beginning of year	16,554	451,531	1,924	470,009
Net assets, end of year	**$ 13,541**	**$ 420,465**	**$ 1,955**	**$ 435,961**

See Independent Auditors' Report and accompanying notes to financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Cash Flows
(in thousands)

	Years Ended June 30,	
	2009	*2008*
Cash flows from operating activities:		
Change in net assets	$ (156,914)	$ (34,048)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	5,520	5,746
Write off unamortized bond issuance costs	-	2,684
Net realized and unrealized (gain) loss on long-term investments	124,612	8,944
Contributions designated for long-term investment	(136)	(31)
Realized gain on termination of interest rate agreements	(2,275)	-
Change in value of interest rate agreement	12,096	8,181
Change in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other assets	(103)	(48)
Accounts payable and accrued expenses, deferred revenues	(552)	(580)
Contributions receivable	(35)	4,880
Net cash used in operating activities	**(17,787)**	**(4,272)**
Cash flows from investing activities:		
Purchases of investments	(165,152)	(199,404)
Sales and maturities of investments	181,450	203,552
Acquisition and construction of property and equipment	(668)	(849)
Use of trusteed funds held for construction	267	170
Change in employee loans receivable	395	194
Net cash provided by investing activities	**16,292**	**3,663**
Cash flows from financing activities:		
Proceeds from issuance of bonds	94,000	-
Repayments of bonds	(93,200)	-
Payments for bond issuance costs	(826)	-
Net proceeds from termination of interest rate agreements	2,275	-
Contributions designated for long-term investment	136	31
Net cash provided by financing activities	**2,385**	**31**
Net increase (decrease) in cash and cash equivalents	**890**	**(578)**
Cash and cash equivalents, beginning of year	**685**	**1,263**
Cash and cash equivalents, end of year	**$ 1,575**	**$ 685**
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ 7,115	$ 8,267

See Independent Auditors' Report and accompanying notes to financial statements.

Note 1 - Nature of Operations

Franklin W. Olin College of Engineering, Inc. (the "College"), was founded in 1997 by the F. W. Olin Foundation, Inc. (the "Foundation"), and graduated its first class in May 2006. The College is an independent, nonsectarian college offering undergraduate engineering degrees. There are approximately 325 students predominantly drawn from across the United States, all of whom receive an eight-semester full tuition merit scholarship. The campus is located in Needham, Massachusetts. The College 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. The College is accredited by the New England Association of Schools and Colleges, and the three degree programs are accredited by ABET.

The College's funding was primarily sourced from the F.W. Olin Foundation under the terms of the Grant Agreement (the "Agreement") which created the Olin Endowment and stipulates a number of financial and other requirements associated with the operations of the College. The Agreement further provides for the use of the Olin Endowment in certain circumstances, such as for the payment of certain debt service should unrestricted net assets be insufficient for that purpose, and for certain capital outlays. The College is obligated to maintain the Olin Endowment in perpetuity, except for the circumstances previously described. For the purposes of financial statement presentation, the endowment sourced from the Foundation is considered temporarily restricted net assets as defined in Note 2 given the potential for distribution to support debt service and capital outlays that the College may need in the future.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented on the accrual basis of accounting and have been prepared to focus on the College 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 - Net assets that the College may use at its discretion.

Temporarily restricted net assets - Net assets that result from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the College pursuant to those stipulations.

Permanently restricted net assets - Net assets from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the College.

Note 2 - Summary of Significant Accounting Policies (Continued)

Classifications

Investment return for operating activities subject to donor stipulations are reported as increases in temporarily restricted net assets. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as releases between the applicable classes of net assets. Expirations of temporary restrictions occur when donor-imposed stipulated purposes have been accomplished and/or the stipulated time period has elapsed.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period verifiably committed. The College reports all temporarily restricted contributions as increases to the temporarily restricted net asset class and reclassifies them to unrestricted net assets when the restrictions are met. Contributions restricted for the acquisition or construction of buildings and capitalized equipment are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets over the useful lives of the related assets. Promises to give subject to donor-imposed stipulations that the corpus be maintained in perpetuity are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions that are expected to be collected within one year are recorded at net realizable value. Contributions scheduled to be received after one year are discounted at a rate commensurate with the risk involved.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and short-term investments with a maturity date from purchase of three months or less. Cash and cash equivalents held by investment managers are considered part of investments. The College maintains cash balances at financial institutions which, at times, may exceed federally insured limits. The College has not experienced any losses in such accounts.

Investments

Investments in marketable securities and debt securities are valued at quoted prices from major securities exchanges. Certain non-marketable securities, such as private equity, venture capital, and hedge funds include investments for which quoted market prices are not readily available. The fair values of these investments are based on the most recent estimates by the investment managers or partners. Estimates of fair value may differ from the values that would have been used had a ready market for the investments existed.

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Investment returns are reported as follows:

- as increases in permanently restricted net assets if the terms of the contribution require that they be added to the principal of a permanent endowment fund;
- as increases (decreases) in temporarily restricted net assets if the terms of the contribution or state law impose restrictions on the current use of the income or net gains; and
- as increases (decreases) in unrestricted net assets in all other cases.

Investments are comprised of the assets of the College's endowment and other restricted funds. These funds are considered either temporarily or permanently restricted, but exceed the associated net assets. The difference is from bond proceeds that repaid the College for construction costs previously funded by Foundation gifts. These funds were invested in long-term assets that the College agreed to consider part of the Olin Endowment. This was a condition of the gift agreement from the Foundation.

Trusteed Funds Held for Debt Service and Construction

Trusteed funds held for debt service and construction consist primarily of unexpended bond proceeds and funds held for debt service that have been invested in accordance with the various bond agreements. The unexpended bond proceeds were $766 and $1,032 at June 30, 2009 and 2008, respectively.

Property and Equipment

Land, buildings, and equipment are reported at cost at the date of acquisition or at fair value at the date of donation in the case of gifts. For assets placed in service, depreciation is provided using the straight-line method over the estimated useful lives of the assets. Expenditures for new construction, and major renewals, replacements and equipment are capitalized. Gift funded assets are classified as temporarily restricted net assets, and released in the amount of depreciation each year.

Depreciation is provided on a straight-line basis over the following estimated useful lives:

	Years
Buildings and improvements	15 to 40
Equipment	3 to 20

Note 2 - Summary of Significant Accounting Policies (Continued)

Operating and Nonoperating Activities

The College recognizes revenue on grants and contracts for research as related costs are incurred. Payments received in advance of expenditures are recorded as deferred revenue. Advance payments received for student-related activities are recorded as deposits.

The cost of providing the College's operating activities has been summarized on a functional basis in the accompanying statements of activities. Expenses associated with the College's facilities costs, including depreciation, operations, maintenance and interest expenses, are functionally allocated based on estimated space utilized.

Nonoperating activities include returns associated with long-term investments, restricted contributions, and changes in the fair value of the interest rate swap agreements associated with the College's debt.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Subsequent Events

The College has evaluated subsequent events through November 10, 2009, the date the Board of Trustees approved and authorized the financial statements to be issued.

Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

Note 3 - Employee Loans Receivable

The College made loans to certain employees to assist with their purchase of a primary residence in the local area. These loans carry below-market interest rates, have balloon repayment terms and are secured by the real estate.

Note 4 - Contributions Receivable, Net

Contributions receivable consisted of the following at June 30:

	2009	2008
Amounts due in:		
Less than one year	$ 151	$ 105
One to five years	119	114
Total due	**270**	**219**
Less:		
Unamortized discount	11	14
Allowance for doubtful accounts	34	15
Contributions receivable, net	**$ 225**	**$ 190**

Discount rates used to present value the estimated cash flows from contributions were 2.71% for the year ended June 30, 2009, and ranged from 2.77% to 5.03% for the year ended June 30, 2008.

Note 5 - Long-Term Investments

Long-term investments consisted of the following at June 30:

	2009	2008
Equities and equity funds:		
Domestic	$ 84,696	$ 137,092
International	45,660	67,426
Marketable alternatives	87,910	134,695
Nonmarketable alternatives	20,355	21,241
Fixed-income securities funds	51,201	73,644
Real estate	11,470	33,277
Short-term investments	27,368	2,195
Long-term investments, including facilities renewal and replacement fund, at fair value	**$ 328,660**	**$ 469,570**

The College is obligated under certain limited partnership agreements to advance additional funding periodically up to specified levels. At June 30, 2009, the College had capital commitments of approximately $34,003, which will be funded from existing investments. Investment management expenses were $6,664 and $11,764 for the years ended June 30, 2009 and 2008, respectively.

Note 6 - Fair Value Measurements

The College adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157") as of July 1, 2008, which among other matters, requires enhanced disclosures about instruments that are measured and reported at fair value. SFAS No. 157 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price used in measuring instruments at fair value. 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 quoted prices or for which fair value can be measured for actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

The College assumes that for the following financial instruments, the carrying value reported in the balance sheets approximates fair value: cash and cash equivalents, receivables and payables. The fair value of the College's debt was $158,063 and $160,174 at June 30, 2009 and 2008, respectively, based upon quoted market prices for the same or similar issues.

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. The type of instruments included in Level 1 include listed equity and debt securities publicly traded on a Stock Exchange.

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. Instruments reported in this category include interest rate swaps and investments in funds-of-funds, with an observable net asset value at the measurement date.

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. Instruments that are included in this category generally include hedge funds, private equity funds, private real estate funds, and other marketable and non-marketable alternative investments with limited liquidity.

In some instances, the inputs used to measure fair value 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.

Note 6 - Fair Value Measurements (Continued)

The valuation of the College's financial instruments by the above fair value hierarchy consisted of the following at June 30, 2009:

	Portion Carried at Fair Value	*Quoted Prices in Active Markets Level 1*	*Significant Observable Inputs Level 2*	*Significant Unobservable Inputs Level 3*
Long-term investments, including facilities renewal and replacement funds	$ 328,660	$ -	$ 232,676	$ 95,984
Trusteed funds held for debt service and construction	2,501	2,501	-	-
Interest rate agreements	(14,785)	-	(14,785)	-
	$ 316,376	**$ 2,501**	**$ 217,891**	**$ 95,984**

The changes in instruments measured at fair value for which the College has used Level 3 inputs to determine fair value are as follows:

	Level 3
Balance, June 30, 2008	**$ 149,534**
Purchases (sales), net	(8,327)
Realized and unrealized gains (losses)	(45,223)
Balance, June 30, 2009	**$ 95,984**
Changes in unrealized gains (losses) included in earnings related to Level 3 investments still held at reporting date	$ (34,820)

Note 7 - Plant and Equipment, Net

Property and equipment consisted of the following at June 30:

	2009	*2008*
Land	$ 14,605	$ 14,605
Buildings and improvements	129,884	129,671
Equipment	9,172	8,753
Construction in progress	140	104
	153,801	153,133
Less accumulated depreciation	(33,520)	(28,144)
Plant and equipment, net	**$ 120,281**	**$ 124,989**

Note 8 - Pension Plans

Defined Contribution Plan

The College has established a contributory retirement plan (the "Plan") for eligible personnel. The Plan is mandatory for all employees starting on the first day of the month following four months of employment. The Plan is designed in accordance with the provisions of Section 403(b) of the Code. The College's expenses under the Plan were $838 and $788 for the years ended June 30, 2009 and 2008, respectively.

The College also has a supplemental retirement plan under Section 403(b) of the Code, which is funded by voluntary employee contributions.

Deferred Compensation Plan

The College also maintains a plan in accordance with Section 457(b) of the Code. Under the terms of this plan, no contributions are made by the College, but it is fully funded by voluntary pre-tax contributions by highly-compensated employees. The assets and liabilities of this plan are recorded in the statements of financial position and total $394 and $374 in 2009 and 2008, respectively. The assets and liabilities are recorded in prepaid expenses and accounts payable and accrued expenses, respectively.

Note 9 - Bonds Payable

Debt consisted of the following as of June 30:

	2009	*2008*
Taxable Revenue Bonds Series A-1 and A-2 Auction Variable Rate Securities, maturing serially from 2030 to 2033, at an average rate of 6.62% in fiscal year 2009	$ -	$ 93,200
Tax-Exempt Revenue Bonds Series B, at a fixed rate of 5.25%, maturing serially from 2028 to 2033	65,910	65,910
Taxable Variable Rate Demand Revenue Bonds Series C-1, maturing serially from 2034 to 2038, at an average rate of 2.72% in fiscal year 2009	10,000	-
Tax-Exempt Variable Rate Demand Revenue Bonds Series C-2, maturing serially from 2034 to 2038, at an average rate of 2.15% in fiscal year 2009	42,000	-
Tax-Exempt Variable Rate Demand Revenue Bonds Series C-3, maturing serially from 2034 to 2038, at an average rate of 1.24% in fiscal year 2009	42,000	-
	159,910	159,110
Less unamortized bond discount	(1,079)	(1,128)
Bonds payable, net	**$ 158,831**	**$ 157,982**

The College issued the Series A-1, A-2 and B bonds in August 2003. A portion of the proceeds from these bonds was used for construction of Phase I of the main campus (including reimbursement to the College for expenditures made prior to the bond closing), and the remaining balance was used for construction of a second residence hall. The bonds were secured by approximately 42.6 acres of the College's land, along with the associated buildings, facilities and improvements.

In September 2008, the $93,200 of outstanding Series A-1 and A-2 auction variable rate bonds were refunded with $94,000 of the Series C-1, C-2, and C-3 Variable Rate Demand Bonds. The Series B bonds remain outstanding and are secured by a mortgage on certain properties owned by the College. The Series C bonds are secured by an irrevocable direct pay Letter of Credit, which is collateralized by a parity mortgage and expires on September 4, 2011. Unamortized Series A-1 and A-2 bond issuance costs of $2,684 were deemed to be impaired at June 30, 2008 and were written off in 2008.

Interest expense was $6,666 and $8,565 for the years ended June 30, 2009 and 2008, respectively, and the fee paid by the College for the letter of credit was $523 in 2009.

Note 9 - Bonds Payable (Continued)

Unamortized bond discount and issue costs are being amortized on the effective interest method through the final maturity date of each respective bond issue.

The terms of the various bond issuances and Letter of Credit include certain financial covenants such as maintaining certain values of net assets available for debt service and a certain ratio of investments to liabilities, with which the College is in compliance at June 30, 2009 and 2008.

The College maintains an uncollateralized line of credit agreement with a financial institution. The borrowing limit was $1,000 in 2008, and was increased to $2,000 in 2009. There were no outstanding borrowings under this agreement as of June 30, 2008 or 2009. The agreement expires on March 31, 2010 and will be reviewed annually to determine whether the line of credit should be continued or renewed.

Note 10 - Interest Rate Agreements

The College has entered into various interest rate swap agreements in order to partially hedge variable interest rate exposure on certain debt issues, thereby managing the interest cost and risk associated with its outstanding debt. In June 2006, the College entered into two basis swaps with Lehman Brothers Special Financing, Inc. (LBSF) to mitigate the interest rate risk associated with the Series A-1 and A-2 variable rate debt. The College paid the product of USD-SIFMA Municipal Swap Index times 1.45 on principal amounts of $40,000 and $53,190. The counterparty was obligated to pay the College 3-month USD-LIBOR plus 0.53% and 0.55% on the same principal amounts. In December 2006, the College entered into a variable to fixed interest rate swap with LBSF to eliminate the interest rate risk associated with the Series A-1 variable rate. The College paid an annual fixed interest rate of 5.12% and the counterparty was obligated to pay the College 3-month USD-LIBOR on the principal amount of $40,000.

The Lehman Brothers Holdings Inc. bankruptcy filing in September 2008 constituted an event of default as defined in the agreements between the College and LBSF. In October 2008, the College terminated and replaced all three swaps with three replacement counterparties. The notional amounts, termination dates, rates paid by the College and rates received by the College are identical to the terminated swaps. A gain of $2,275 was realized on the transition of the swaps to the new counterparties, and is reflected on the statement of activities as a nonoperating item. The swap terminations were executed in accordance with the initial swap agreements; however, due to the bankruptcy filing, the terminations must be formally accepted by the bankruptcy court and this acceptance is still pending.

Note 10 - Interest Rate Agreements (Continued)

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. The fair value of the swap agreements is reflected on the statements of financial position as a liability of $14,785 and $2,689 as of June 30, 2009 and 2008, respectively. The gains and losses associated with the swap agreements are reflected as non-operating items in the statements of activities.

The interest rate swap agreements contain provisions indicating events that would cause the immediate termination of the swaps, or allow one party to terminate the swap in the event of default by the other party. These events include the credit ratings of either party dropping below certain levels, bankruptcy of either party, or other events of non-performance by the parties. The swap agreements necessarily involve counterparty credit exposure. The swaps contain two-way collateral posting requirements, intended to mitigate credit risk. These provisions require either party to post collateral in the event that the market values of the swaps exceed certain thresholds, which vary depending on each party's credit ratings. The College also has the option to terminate the swap arrangements without cause at any time; however the counterparty does not have any right to cancel the swaps unless there is an event of default by the College. Termination of the swap arrangements would involve settlement of the swaps at the fair market value at the time of termination. Management monitors the risk associated with the swaps as part of its ongoing review of operations.

Note 11 - Net Assets and Endowment Matters

Unrestricted Net Assets

Unrestricted net assets are comprised of the following:

Operating – Discretionary funds available for carrying on the operating activities of the College, including certain property and equipment.

Board-Designated – Funds set aside by the Trustees for a facilities renewal and replacement fund.

	2009	*2008*
Operating	$ 11,267	$ 13,153
Board-Designated	554	388
	$ 11,821	**$ 13,541**

Note 11 - Net Assets and Endowment Matters (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following:

Temporarily restricted portion of the Olin Endowment – The funding received from the F.W. Olin Foundation under the Agreement (see Note 1), plus realized and unrealized investment gains and losses.

Purpose restricted - Amounts received with donor restrictions which have not yet been expended for their designated purposes.

Unrealized/realized gains on permanently restricted investments - In accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and Massachusetts state law, these amounts represent unappropriated gains on permanently restricted endowment investments.

Time restricted - Investment in property and equipment (to be released over time).

	2009	*2008*
Temporarily Restricted Portion of the Olin Endowment	$ 184,345	$ 334,675
Purpose restricted	670	972
Unrealized/realized gains on permanently restricted investments	-	496
Time restricted	80,120	84,322
	$ 265,135	**$ 420,465**

Permanently Restricted Net Assets

Permanently restricted net assets are comprised of amounts restricted by donors against any expenditure of principal. Substantially all the income earned on principal may be used for general or donor restricted purposes and is recorded in unrestricted net assets or temporarily restricted net assets, as appropriate.

Note 11 - Net Assets and Endowment Matters (Continued)

Permanently Restricted Net Assets (Continued)

Permanently restricted net assets at June 30, 2009 and 2008, were restricted to:

	2009	2008
Bioengineering chair	$ 1,633	$ 1,633
Wynn Library Fund	220	200
Permanently Restricted Portion of the Olin Endowment	88	72
Samuel and Rae Eckman Endowment	150	50
	$ 2,091	**$ 1,955**

Net Assets Released from Restrictions

Net assets released from restrictions consisted of the following at June 30:

	2009	2008
Depreciation of gifted capitalized assets	$ 4,202	$ 4,392
Olin Endowment spending	22,100	24,645
Interest Rate Agreements	9,821	8,181
Scholarship	9	22
Other	908	914
	$ 37,040	**$ 38,154**

Included in Other releases for the years ended June 30, 2009 and 2008 is $312 and $300, respectively, for the facilities renewal and replacement fund for which the cash was not transferred to the operating account.

See Note 1 for additional discussion of the Olin Endowment.

New Accounting Pronouncement

The Financial Accounting Standards Board (FASB) has issued FASB staff position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* ("FSP 117-1") effective for fiscal years ending after December 15, 2008. The College adopted FSP 117-1 as of the beginning of 2008. FSP 117-1 requires enhanced disclosures for each period for which the College presents financial statements. The adoption of FSP 117-1 had no impact on reported amounts. The following represents required disclosure relative to the composition of investments at June 30, 2009 and 2008:

Note 11 - Net Assets and Endowment Matters (Continued)

	Unrestricted Net Assets	*Temporarily Restricted Net Assets*	*Permanently Restricted Net Assets*	*Total*
Endowment assets and those functioning as endowment assets at June 30, 2007	$ 89	480,669	1,904	$ 482,662
Gifts and additions	-	13,053	41	13,094
Investment returns:				
Interest and dividends, net of investment expenses	7	7,390	-	7,397
Net realized and unrealized gains (losses)	(8)	(8,930)	-	(8,938)
Total investment returns	(1)	(1,540)	-	(1,541)
Expenditures:				
Amounts appropriated for operations	-	(24,645)	-	(24,645)
Total expenditures	-	(24,645)	-	(24,645)
Reclassifications:				
Reclassification of net assets	300	(300)	-	-
Endowment assets and those functioning as endowment assets at June 30, 2008	**388**	**467,237**	**1,945**	**469,570**
Gifts and additions	-	-	43	43
Investment returns:				
Interest and dividends, net of investment expenses	8	5,761	-	5,769
Net realized and unrealized gains (losses)	(154)	(124,458)	-	(124,612)
Total investment returns	(146)	(118,697)	-	(118,843)
Expenditures:				
Amounts appropriated for operations	-	(22,100)	-	(22,100)
Expenditures	-	(10)	-	(10)
Total expenditures	-	(22,110)	-	(22,110)
Reclassifications:				
Reclassification for endowment losses exceeding corpus	(116)	116	-	-
Other reclassification of net assets	312	(312)	-	-
Total reclassifications	196	(196)	-	-
Endowment assets and those functioning as endowment assets at June 30, 2009	**$ 438**	**$ 326,234**	**$ 1,988**	**$ 328,660**

Note 11 - Net Assets and Endowment Matters (Continued)

All unrestricted endowment assets as of June 30, 2009 and 2008 represent Board-designated endowment funds. All temporarily and permanently restricted net assets are donor-restricted.

Interpretation of Relevant Law and Spending Policy

The Board of Trustees of the College has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) signed into law in the state of Massachusetts, effective for fiscal year ended June 30, 2009 and thereafter, requiring the preservation of the original value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original gift 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 remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the College and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the College
(7) The investment policies of the College

Distributions from long-term investments are made using the total return method. Under the total return method, distributions consist of interest, dividends, realized and unrealized gains.

The College's endowment spending policy is computed based on the average market value of the funds invested as endowment for the previous twelve quarters, through December 31 of the prior year. The Endowment Grant Agreement stipulates that the cash basis endowment spending rate may generally not exceed 6% of the Olin Endowment. Endowment spending beyond this 6% limit requires affirmative Board appropriation. The cash basis endowment spending rate was 4.69% and 5.82% for the years ended June 30, 2009 and 2008, respectively. Accrued draws in excess of 6% are permitted without Board approval.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the College to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets are $116 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations. There were no such deficiencies at June 30, 2008.

Note 11 - Net Assets and Endowment Matters (Continued)

Return Objectives and Risk Parameters

The College's investment portfolio is managed to provide for the long term support of the College. 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 the maximum total return consistent with acceptable and agreed upon levels of risk. On an annualized, net-of-fees basis, the return of the total endowment portfolio over the long-term is expected to equal or exceed the spending rate plus inflation.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College 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 College 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 College 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.