Financial Statements

Franklin W. Olin College of Engineering, Inc.

June 30, 2010 and 2009

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

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Financial Statements

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Independent Auditors' Report

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

We have audited the accompanying statements of financial position of Franklin W. Olin College of Engineering, Inc. (the "College") as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

November 9, 2010
Cambridge, Massachusetts

FRANKLIN W. OLIN COLLEGE OF ENGINEERING

Statements of Financial Position
(in thousands)

	June 30, 2010	June 30, 2009
Assets		
Cash and cash equivalents	$ 1,783	$ 1,575
Accounts receivable, net	668	702
Contributions receivable, net	1,042	225
Prepaid expenses and other assets	822	675
Trusteed funds held for debt service and construction, at fair value	94	2,501
Unamortized bond issuance costs	2,366	2,464
Long-term investments, at fair value	333,637	328,106
Long-term investments, facilities renewal and replacement fund	1,921	554
Plant and equipment, net	116,160	120,281
Total assets	**$ 458,493**	**$ 457,083**
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 2,761	4,173
Deferred revenue and deposits	241	247
Bonds payable, net	158,880	158,831
Interest rate agreements	16,682	14,785
Total liabilities	**178,564**	**178,036**
Net assets:		
Unrestricted	12,262	11,821
Temporarily restricted	265,502	265,135
Permanently restricted	2,165	2,091
Total net assets	**279,929**	**279,047**
Total liabilities and net assets	**$ 458,493**	**$ 457,083**

See accompanying notes to the financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Activities

(in thousands)

Year Ended June 30,

	2010				2009
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*Total*
Operating revenues					
Tuition and fees	$ 12,344	$ -	$ -	$ 12,344	$ 11,125
Room and board	4,288	-	-	4,288	3,805
Less: Student aid	(12,132)	-	-	(12,132)	(10,898)
Student revenues, net	4,500	-	-	4,500	4,032
Contributions	321	1,507	-	1,828	691
Government grants and other contracts	379	-	-	379	1,292
Other	1,130	-	-	1,130	1,102
Net assets released for Olin Endowment spending	21,900	-	-	21,900	22,100
Net assets released for other purpose restrictions	476	(476)	-	-	-
Net assets released for depreciation	4,015	-	-	4,015	4,202
Total operating revenues	**32,721**	**1,031**	**-**	**33,752**	**33,419**
Operating expenses					
Instruction	9,976	-	-	9,976	10,323
Research	969	-	-	969	1,200
Academic support	2,972	-	-	2,972	3,056
Student services	10,778	-	-	10,778	11,148
Sponsored programs	704	-	-	704	1,823
Development and fundraising	998	-	-	998	733
Institutional support	7,358	-	-	7,358	7,352
				-	
Total operating expenses	**33,755**	**-**	**-**	**33,755**	**35,635**
Change in net assets from operating activities	**(1,034)**	**1,031**	**-**	**(3)**	**(2,216)**
Nonoperating activities					
Contributions	-	-	74	74	136
Interest and dividend income	21	5,457	-	5,478	5,901
Net realized and unrealized gain (loss) on long-term investments	27	23,118	-	23,145	(124,612)
Net assets released for Olin Endowment spending	-	(21,900)	-	(21,900)	(22,100)
Net assets released for depreciation	-	(4,015)	-	(4,015)	(4,202)
Net assets released for transfer to facilities renewal and replacement fund	1,321	(1,321)	-	-	-
Change in fair value of interest rate agreement	(1,897)	-	-	(1,897)	(9,821)
Net assets released for change in fair value of interest rate agreement	1,897	(1,897)	-	-	-
Reclassification for endowment losses exceeding corpus	106	(106)	-	-	-
Change in net assets from nonoperating activities	**1,475**	**(664)**	**74**	**885**	**(154,698)**
Change in net assets	**441**	**367**	**74**	**882**	**(156,914)**
Net assets, beginning of year	11,821	265,135	2,091	279,047	435,961
Net assets, end of year	**$ 12,262**	**$ 265,502**	**$ 2,165**	**$ 279,929**	**$ 279,047**

See accompanying notes to the financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Activities
(in thousands)

	Year Ended June 30, 2009			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Operating revenues				
Tuition and fees	$ 11,125	$ -	$ -	$ 11,125
Room and board	3,805	-	-	3,805
Less: Student aid	(10,898)	-	-	(10,898)
Student revenues, net	4,032	-	-	4,032
Contributions	406	285	-	691
Government grants and other contracts	1,292	-	-	1,292
Other	1,096	6	-	1,102
Net assets released for Olin Endowment spending	22,100	-	-	22,100
Net assets released for other purpose restrictions	917	(917)	-	-
Net assets released for depreciation	4,202	-	-	4,202
Total operating revenues	**34,045**	**(626)**	**-**	**33,419**
Operating expenses				
Instruction	10,323	-	-	10,323
Research	1,200	-	-	1,200
Academic support	3,056	-	-	3,056
Student services	11,148	-	-	11,148
Sponsored programs	1,823	-	-	1,823
Development and fundraising	733	-	-	733
Institutional support	7,352	-	-	7,352
Total operating expenses	**35,635**	**-**	**-**	**35,635**
Change in net assets from operating activities	**(1,590)**	**(626)**	**-**	**(2,216)**
Nonoperating activities				
Contributions	-	-	136	136
Interest and dividend income	140	5,761	-	5,901
Net realized and unrealized gain (loss) on long-term investments	(154)	(124,458)	-	(124,612)
Net assets released for Olin Endowment spending	-	(22,100)	-	(22,100)
Net assets released for depreciation	-	(4,202)	-	(4,202)
Change in fair value of interest rate agreement	(9,821)	-	-	(9,821)
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	**(130)**	**(154,704)**	**136**	**(154,698)**
Change in net assets	**(1,720)**	**(155,330)**	**136**	**(156,914)**
Net assets, beginning of year	13,541	420,465	1,955	435,961
Net assets, end of year	**$ 11,821**	**$ 265,135**	**$ 2,091**	**$ 279,047**

See accompanying notes to the financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Cash Flows
(in thousands)

	Years Ended June 30,	
	2010	***2009***
Cash flows from operating activities		
Change in net assets	$ 882	$ (156,914)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	5,407	5,520
Net realized and unrealized (gain) loss on long-term investments	(23,145)	124,612
Contributions designated for long-term investment	(74)	(136)
Realized gain on interest rate agreements	-	(2,275)
Change in value of interest rate agreement	1,897	12,096
Use of trusteed funds held for debt service interest payments	1,730	1
Change in operating assets and liabilities		
Accounts receivable, prepaid expenses and other assets	(113)	292
Accounts payable and accrued expenses, deferred revenues	(1,418)	(552)
Contributions receivable	(817)	(35)
Net cash used in operating activities	**(15,651)**	**(17,391)**
Cash flows from investing activities		
Purchases of investments	(230,925)	(165,152)
Sales and maturities of investments	247,172	181,450
Acquisition and construction of property and equipment	(1,139)	(668)
Use of trusteed funds held for construction	677	266
Net cash provided by investing activities	**15,785**	**15,896**
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 interest rate agreements	-	2,275
Contributions designated for long-term investment	74	136
Net cash provided by financing activities	**74**	**2,385**
Net increase in cash and cash equivalents	**208**	**890**
Cash and cash equivalents, beginning of year	**1,575**	**685**
Cash and cash equivalents, end of year	**$ 1,783**	**$ 1,575**
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 5,301	$ 7,115

See accompanying notes to the financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements
(in thousands)

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 340 students predominantly drawn from across the United States, all of whom receive an eight-semester 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. The College reports three classes of net assets and the changes in those net assets in the statement of financial position and statement of activities, respectively. The three classes of net assets – unrestricted, temporarily restricted and permanently restricted – are based on the existence or absence of donor-imposed restrictions, either explicit or implicit. The three classifications are defined as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that permit the College to use or expend the donated assets as specified, and are satisfied by either the passage of time or by actions of the College.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Unexpended appreciation on permanently restricted net assets is included in temporarily restricted net assets.

The College reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets.

Note 2 - Summary of Significant Accounting Policies (Continued)

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period verifiably committed. Initial recording for pledges expected to be collected in one year or more is arrived at by using the present value of the expected future cash flows, using a risk adjusted rate to account for the inherent risk associated with the expected future cash flows. While the risk adjusted rate is theoretically specific to each balance, management has determined that an overall discount rate of 4.00% and 2.71% for June 30, 2010 and 2009, respectively, reasonably accounts for this inherent risk. Amortization of the discount is included in contributions revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the allowance by a review of historical experience and a specific review of collection trends that differ from plan on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks, money market funds, 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 monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Investments

Investments are carried at fair value. Fair value is determined as per the fair value policies described later in this section.

Interest, dividends and net gains or losses on investments are reported as increases or decreases in permanently restricted net assets if the terms of the original gift require that they be applied to the principal of a permanent endowment fund; as increases or decreases in temporarily restricted net assets if the terms of the gift and/or relevant state law impose restrictions on the current use of the income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases.

Investments are comprised of the assets of the College's endowment, quasi-endowment, and other restricted funds. These funds are considered either unrestricted, 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 Grant Agreement from the Foundation.

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The College reports required types of financial instruments in accordance with the fair value standards. 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 College reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value standards also require the College to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories, with Level 1 being the highest level:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on a stock exchange, publicly traded mutual funds, and other cash equivalents.

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, which are able to be liquidated within one quarter after the reporting period.

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 certain hedge funds, private equity funds, private real estate funds, and other marketable and non-marketable alternative investments with limited liquidity. This category also includes investments with an observable net asset value at the measurement date, but which are less liquid.

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.

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 values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Management has determined that fair value approximates carrying value for cash and cash equivalents, accounts receivable and accounts payable, given the short-term nature of these instruments. Management has no practical or cost effective way of assessing fair value for contributions receivable. The fair value of the College's debt was $167,032 and $158,063 at June 30, 2010 and 2009, respectively, based on quoted market prices for the same or similar issues. The market prices utilized reflect the rate that the College would have to pay to a creditworthy third party to assume its obligation (although the College is prohibited from doing so) and do not reflect an additional liability to the College. See Notes 4 and 8 for the required fair value hierarchy disclosures.

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 for construction were $90 and $766 at June 30, 2010 and 2009, respectively. These amounts are carried at fair value as described above.

Capitalized Interest

Interest costs incurred on borrowed funds during the period of construction of capital assets, net of investment income earned on borrowed funds held by trustees, are capitalized as a component of the cost of acquiring capital assets. Interest of $41 was capitalized during 2010. No interest was capitalized during 2009.

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 that restrict the use of the assets are classified as temporarily restricted net assets, and released in the amount of depreciation each year. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of land, buildings and equipment are recorded as unrestricted support at fair value as described earlier in this section.

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)

Interest Rate Agreements

The College reports the value of its interest rate agreements at fair value. Fair value is determined as per the fair value policies described earlier in this section.

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, permanently restricted contributions, transfers to the facilities renewal and replacement fund, and changes in the fair value of the interest rate swap agreements associated with the College's debt.

Uncertain Tax Positions

The College 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 College has identified its tax status as a tax exempt entity as a tax position; however, the College has determined that such tax position does not result in an uncertainty requiring recognition. The College is not currently under examination by any taxing jurisdictions. The College's Federal and State tax returns are generally open for examination for three years following the date filed.

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. Significant management estimates included in the financial statements relate to the allowance for doubtful contributions receivable, fair value of certain investments, fair value of interest rate swap contracts, and the allocation of common expenses over program functions.

Note 2 - Summary of Significant Accounting Policies (Continued)

Subsequent Events

The College has evaluated subsequent events through November 9, 2010, the date the financial statements were issued.

Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

Note 3 - Contributions Receivable, Net

Contributions receivable consisted of the following at June 30:

	2010	*2009*
Amounts due in:		
Less than one year	$ 396	$ 151
One to five years	802	119
Total due	**1,198**	**270**
Less:		
Unamortized discount	100	11
Allowance for doubtful accounts	56	34
Contributions receivable, net	**$ 1,042**	**$ 225**

Note 4 - Investments

The following are major categories of investments measured at fair value at June 30, grouped by fair value hierarchy:

	2010 Total	Level 1	Level 2	Level 3
Long-term investments, including facilities renewal and replacement funds:				
Cash and cash equivalents	$ 4,004	$ 4,004	$ -	$ -
Equity funds	114,339	-	114,339	-
Fixed funds	69,406	-	69,406	-
Real assets funds	26,537	-	26,537	-
Directional & relative value funds	98,641	-	46,650	51,991
Non-marketable alternatives	22,631	-	-	22,631
Subtotal	335,558	4,004	256,932	74,622
Trusteed funds held for debt service and construction	94	94	-	-
	$ 335,652	**$ 4,098**	**$ 256,932**	**$ 74,622**

	2009 Total	Level 1	Level 2	Level 3
Long-term investments, including facilities renewal and replacement funds:				
Cash and cash equivalents	$ 2,510	$ 2,510	$ -	$ -
Equity funds	138,646	-	138,646	-
Fixed funds	81,813	-	81,813	-
Real assets funds	9,707	-	9,707	-
Directional & relative value funds	69,912	-	26,338	43,574
Non-marketable alternatives	26,072	-	-	26,072
Subtotal	328,660	2,510	256,504	69,646
Trusteed funds held for debt service and construction	2,501	2,501	-	-
	$ 331,161	**$ 5,011**	**$ 256,504**	**$ 69,646**

Note 4 - Investments (Continued)

Investment management expenses, which include custody, advisory and incentive/performance fees and fund administrative expenses, are estimated to be $6,400 and $6,700 for the years ended June 30, 2010 and 2009, respectively.

The following is a reconciliation of the beginning and ending balances for investments measured at fair value using significant unobservable inputs (Level 3) for 2010 and 2009 respectively:

	Balance, June 30, 2009	*Purchases, sales, issuances, and settlements, net*	*Realized and unrealized gains (losses)*	*Balance June 30, 2010*
Directional and relative value funds	$ 43,574	$ 4,280	$ 4,137	$ 51,991
Non-marketable alternatives	26,072	5,812	(9,253)	22,631
	$ 69,646	**$ 10,092**	**$ (5,116)**	**$ 74,622**

	Balance, June 30, 2008	*Purchases, sales, issuances, and settlements*	*Realized and unrealized gains (losses)*	*Balance June 30, 2009*
Equity funds	$ 23,306	$ (12,603)	$ (10,703)	$ -
Directional and relative value funds	57,710	(7,362)	(6,774)	43,574
Non-marketable alternatives	45,138	5,638	(24,704)	26,072
	$ 126,154	**$ (14,327)**	**$ (42,181)**	**$ 69,646**

Note 4 - Investments (Continued)

The change in unrealized gains or losses for each period included in earnings which is related to Level 3 investments still held at the reporting date is as follows:

	2010	*2009*
Directional and relative value funds	$ 1,316	$ (6,437)
Non-marketable alternatives	(9,253)	(24,704)
	$ (7,937)	**$ (31,141)**

A summary of the significant categories of investments utilizing the net asset value practical expedient (which is all Level 2 and 3 investments) and their attributes are as follows:

	Fair Value June 30, 2010	*Unfunded Commitments*	*Redemption Frequency (If Currently Eligible)*	*Redemption Notice Period*
Equity funds	$ 114,339	$ -	daily, monthly	0-30 days
Fixed income funds	69,406	-	daily, monthly	0-5 days
Real asset funds	26,537	-	monthly	5-30 days
Directional & relative value funds	98,641	-	monthly, quarterly, semiannual	90-95 days
Non-marketable alternatives	22,631	33,240	N/A	N/A
	$ 331,554	**$ 33,240**		

Note 4 - Investments (Continued)

Equity funds – includes investments in funds of funds that invest in public U.S. and Non-U.S. equity securities. These funds are included in the portfolio to provide growth (primarily capital appreciation). Within this category, the College invests in several different funds of funds, in order to diversify among strategies and managers.

Fixed income funds – includes investments in funds of funds that invest in U.S. and Non-U.S. debt securities. These funds are included in the portfolio to provide a deflation hedge and to add current yield.

Real asset funds – includes investments in funds of funds that invest in a broad spectrum of commodity-oriented asset categories, and inflation-indexed securities such as U.S. Treasury inflation-indexed securities and non-U.S. dollar denominated inflation-indexed securities. These funds are included in the portfolio to provide an inflation hedge.

Directional and relative value funds – includes investments in several hedge funds employing different strategies. These investments are included in the portfolio to reduce volatility while providing enhanced returns over the long term.

Non-marketable alternatives – includes investments in various private equity funds, well diversified by managers, strategies, and vintage years. This category also includes investments in distressed debt funds of funds, natural resources funds of funds, and a real estate fund. These investments are included in the portfolio in order to provide further diversification, reduced volatility, and enhanced returns. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 1 to 15 years.

Note 5 - Plant and Equipment, Net

Property and equipment consisted of the following at June 30:

	2010	*2009*
Land	$ 14,605	$ 14,605
Buildings and improvements	130,817	129,884
Equipment	9,505	9,172
Construction in progress	13	140
	154,940	153,801
Less accumulated depreciation	(38,780)	(33,520)
Plant and equipment, net	**$ 116,160**	**$ 120,281**

Note 6 - Pension Plans

Defined Contribution Plan

The College has established a contributory retirement plan (the "Plan") for eligible personnel. The Plan is mandatory for all eligible 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 $878 and $838 for the years ended June 30, 2010 and 2009, 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 $470 and $394 in 2010 and 2009, respectively. The assets and liabilities are recorded in other assets and accounts payable and accrued expenses, respectively.

Note 7 - Bonds Payable

Debt consisted of the following as of June 30:

	2010	*2009*
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 1.01% in 2010 and 2.72% in 2009	10,000	10,000
Tax-Exempt Variable Rate Demand Revenue Bonds Series C-2, maturing serially from 2034 to 2038, at an average rate of 0.41% in 2010 and 2.15% in 2009	42,000	42,000
Tax-Exempt Variable Rate Demand Revenue Bonds Series C-3, maturing serially from 2034 to 2038, at an average rate of 0.41% in 2010 and 1.24% in 2009	42,000	42,000
	159,910	159,910
Less unamortized bond discount	(1,030)	(1,079)
Bonds payable, net	**$ 158,880**	**$ 158,831**

Note 7 - Bonds Payable (Continued)

The College issued the Series B bonds in August 2003. The proceeds from these bonds were used toward construction of the main campus (including reimbursement to the College for expenditures made prior to the bond closing). The bonds are secured by approximately 42.6 acres of the College's land, along with the associated buildings, facilities and improvements.

The Series C-1, C-2, and C-3 Variable Rate Demand Bonds were issued in September 2008 to refund a prior series of outstanding auction variable rate bonds. 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.

Interest expense, net of amounts capitalized, was $5,298 and $6,666 for the years ended June 30, 2010 and 2009, respectively, and the fee paid by the College for the Letter of Credit was $625 and $523 in 2010 and 2009, respectively.

Unamortized bond discount and issue costs are being amortized using the straight-line 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, 2010 and 2009.

The College maintains an uncollateralized line of credit agreement with a financial institution. The borrowing limit was $2,000 in 2010 and 2009. There were no outstanding borrowings under this agreement as of June 30, 2010 or 2009. The agreement expires on March 31, 2011 and will be reviewed annually to determine whether the line of credit should be continued or renewed.

Note 8 - 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. The College does not enter into derivative instruments for trading or speculative purposes.

In 2006, the College entered into three swaps with Lehman Brothers Special Financing, Inc. (LBSF) to mitigate the interest rate risk associated with a prior series of auction variable rate debt. The Lehman Brothers Holdings Inc. bankruptcy filing in September 2008 constituted an event of default as defined in the swap agreements between the College and LBSF. In October 2008, the College terminated all three swaps, and replaced them with three new swaps, with three different counterparties. The notional amounts, termination dates, rates paid by the College and rates received by the College are identical to the terminated swaps, but the collateral posting provisions and certain other terms are substantially different. A net gain of $2,275 was realized on the early termination of the LBSF swaps and the entrance into the new swaps, and is reflected in change in fair value of interest rate agreement on the 2009 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

Note 8 - Interest Rate Agreements (Continued)

must be formally accepted by the bankruptcy court and this acceptance is still pending. In August 2010, the College received a demand on behalf of LBSF for $6,339 in connection with the termination of the aforementioned swaps. The demand claims that the termination payout was calculated incorrectly. The demand also includes interest calculated through August 15, 2010. Management contends that the demand on LBSF's behalf lacks merit, and intends to vigorously defend the matter. However, because this matter is in its earliest stages, management cannot predict its likely outcome at this time therefore no accrual has been recorded for this matter.

The terms of the three existing swap agreements, entered into in October 2008, are as follows:

Notional Amount	*Termination Date*	*Interest Rate Received*	*Interest Rate Paid*	*2010 Fair Value (Liability)*	*2009 Fair Value (Liability)*
$ 40,000	July 1, 2033	USD-3M LIBOR	5.1227%	$ 9,074	$ 6,370
40,000	July 1, 2033	USD-3M LIBOR + 0.53%	SIFMA x 1.45	3,154	3,517
53,190	July 1, 2033	USD-3M LIBOR + 0.55%	SIFMA x 1.45	4,454	4,898
$ 133,190				**$ 16,682**	**$ 14,785**

The swaps are categorized as Level 2 in the fair value hierarchy.

Each swap agreement requires the posting of collateral by the College if the mark to market liability payable by the College on that particular agreement exceeds a certain threshold. The threshold amount is dependent on the College's credit rating. Based on the current credit rating of the College, the mark to market liability threshold is $30,000 for each of the swaps. The counterparties also have collateral posting requirements which vary based on their credit ratings.

As a result of the use of derivative instruments, the College is exposed to risk that the counterparties will fail to meet their contractual obligation. To mitigate the counterparty risk, the College only enters into contracts with selected major financial institutions based upon their credit ratings and other factors, and continually assesses the creditworthiness of counterparties. At June 30, 2010 and 2009, all of the counterparties to the College's interest rate swaps had investment grade ratings. To date, all counterparties have performed in accordance with their contractual obligation.

Note 9 - 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.

	2010	*2009*
Operating	$ 10,341	$ 11,267
Board-Designated	1,921	554
	$ 12,262	**$ 11,821**

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 interest and dividend income and realized and unrealized investment gains and losses.

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

Accumulated income/gains on permanently restricted investments **-** In accordance with U.S. generally accepted accounting principles and Massachusetts state law, these amounts represent unappropriated income and gains on permanently restricted endowment investments.

Time restricted **-** Investment in property and equipment (to be released over time), plus certain promises to give, expected to be collected in future years.

	2010	*2009*
Temporarily restricted portion of the Olin Endowment	$ 187,559	$ 184,345
Purpose restricted	1,301	670
Accumulated income/gains on permanently restricted investments	47	-
Time restricted	76,595	80,120
	$ 265,502	**$ 265,135**

Note 9 - Net Assets and Endowment Matters (Continued)

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.

Permanently restricted net assets consisted of the following at June 30:

	2010	*2009*
Endowment contributions whose income and net gains are restricted for the following purposes:		
Faculty chairs	$ 1,694	$ 1,633
Library support	220	220
Scholarships	150	150
Permanently restricted portion of the Olin Endowment	84	88
Other	17	-
	$ 2,165	**$ 2,091**

Net Assets Released from Restrictions

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors or by the passage of time were as follows:

	2010	*2009*
Depreciation of gifted capitalized assets	$ 4,015	$ 4,202
Olin Endowment spending	21,900	22,100
Interest rate agreements	1,897	9,821
Scholarships and financial aid	75	9
Transfer to facilities renewal and replacement fund	1,321	312
Other	401	596
	$ 29,609	**$ 37,040**

See Note 1 for additional discussion of the Olin Endowment. The amounts released for depreciation and interest rate agreements are non-cash releases and are excluded from the following table that outlines the endowment asset activity.

Note 9 - 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 July 1, 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	-	-
Reclassification to facilities renewal and replacement fund	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**
Gifts and additions	-	-	177	177
Investment returns:				
Interest and dividends, net of investment expenses	19	5,457	-	5,476
Net realized and unrealized gains (losses)	27	23,118	-	23,145
Total investment returns	46	28,575	-	28,621
Expenditures for operations	-	(21,900)	-	(21,900)
Reclassifications:				
Reclassification for endowment losses exceeding corpus	106	(106)	-	-
Reclassification to facilities renewal and replacement fund	1,321	(1,321)	-	-
Total reclassifications	1,427	(1,427)	-	-
Endowment assets and those functioning as endowment assets at June 30, 2010	**$ 1,911**	**$ 331,482**	**$ 2,165**	**$ 335,558**

Note 9 - Net Assets and Endowment Matters (Continued)

All unrestricted endowment assets as of June 30, 2010 and 2009 represent Board-designated endowment funds.

Interpretation of Relevant Law and Spending Policy

The College classifies 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. 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 state law.

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.

State law allows the Board of Trustees to appropriate a percentage of net asset appreciation as is prudent considering the College's long- and short-term needs, present and anticipated financial requirements, and expected total return on investments, price level trends, and general economic conditions. 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 5.17% and 4.69% for the years ended June 30, 2010 and 2009, 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 $10 and $116 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations.

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.

Note 9 - Net Assets and Endowment Matters (Continued)

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.

Note 10 - Commitments and Contingencies

Various legal cases arise in the normal course of the College's operations. Other than the matter discussed in Note 8, the College believes that there are currently no outstanding cases, which would have a material adverse effect on the financial position of the College.

All funds expended by the College 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, 2010.