Franklin W. Olin College of Engineering

Annual Financial Information and Operating Data
Audited Financial Statements

November, 2014

Table 1 – First Year Applications							
Academic Year	**Applications Received**	**Applications Accepted**	**Acceptance Ratio %**	**Enrolled**	**Matriculation Ratio %**	**Middle 50% of SAT Scores for Matriculated Students**	**Average GPA 4.0 Scale**
2010-11	567	171	30.2%	92	54.0%	2060-2240	4.3
2011-12	768	126	16.4%	87	55.6% (1)	2100-2280	4.3
2012-13	782	151	19.3%	83	55.0%	2125-2280	4.3
2013-14	803	133	16.6%	86	61.0%	2110-2293	4.0
2014-15	998	107	10.6%	86	63.6%	2125-2265	4.0

(1) The matriculation ratio is based on the students admitted in this cycle, not the deferred students.

Table 2 – Total Student Enrollment						
Academic Year	**Freshmen**	**Sophomores**	**Juniors**	**Seniors**	**Other (2)**	**Total**
2010-11	100	79	81	81	8	349
2011-12	89	87	79	71	18	344
2012-13	88	86	100	68	13	355
2013-14	89	84	87	83	12	355
2014-15	89	85	88	72	16	350

(2) Full-time exchange students or visiting students

Table 3 – Tuition, Room, Board and Student Fees						
Academic Year	**Tuition**	**Room**	**Board**	**Student Activity Fee**	**Laptop Fee**	**General Fee**
2010-11	$38,000	$8,500	$5,000	$175	$2,500	$250
2011-12	$39,000	$8,800	$5,200	$175	$2,500	$275
2012-13	$40,000	$9,000	$5,500	$175	$2,500	$300
2013-14	$42,000	$9,000	$6,000	$175	$2,656	$325
2014-15	$43,500	$9,000	$6,200	$175	$2,656	$350

Table 4 – Financial Aid					
Academic Year	**Unrestricted Institutional**	**Restricted Institutional**	**Federal**	**State (Byrd Scholars)**	**Other**
2010-11	$11,819,135	$90,787	$192,816	$51,750	$593,435
2011-12	$10,449,925	$163,430	$105,210	$12,331	$757,125
2012-13	$9,815,079	$366,113	$109,018	$1,500	$895,509
2013-14	$9,658,110	$334,777	$109,033	0	$1,128,874
2014-15*	$9,810,306	$218,679	$138,767	0	$1,082,112

* Estimated

Financial Statements

Franklin W. Olin College of Engineering, Inc.

June 30, 2014 and 2013

MHM
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:

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

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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 financial statements of Franklin W. Olin College of Engineering, Inc. (the "College"), which comprise the statements of financial position as of June 30, 2014 and 2013, 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 the College as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

October 25, 2014
Boston, Massachusetts

FRANKLIN W. OLIN COLLEGE OF ENGINEERING

Statements of Financial Position
(in thousands)

	June 30,	
	2014	***2013***
Assets		
Cash and cash equivalents	$ 3,796	$ 2,353
Accounts receivable, net	781	875
Contributions receivable, net	596	737
Prepaid expenses and other assets	1,754	1,309
Trusteed funds held for debt service	15	66
Unamortized bond issuance costs	1,537	1,590
Short-term investments, capital reserve fund	842	1,713
Long-term investments	375,932	346,794
Long-term investments, facilities renewal and replacement fund	4,396	2,577
Plant and equipment, net	98,654	103,288
Total assets	**$ 488,303**	**$ 461,302**
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 4,145	$ 4,160
Deferred revenue and deposits	614	574
Bonds payable, net	160,558	160,773
Interest rate agreements	14,341	13,549
Total liabilities	**179,658**	**179,056**
Net assets:		
Unrestricted	10,590	8,840
Temporarily restricted	295,214	270,681
Permanently restricted	2,841	2,725
Total net assets	**308,645**	**282,246**
Total liabilities and net assets	**$ 488,303**	**$ 461,302**

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Activities

(in thousands)

Years ended June 30,

(with comparative totals for 2013)

	2014				2013
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*Total*
Operating revenues					
Tuition and fees	$ 14,653	$ -	$ -	$ 14,653	$ 13,791
Room and board	5,139	-	-	5,139	4,938
Less: Student aid	(9,904)	-	-	(9,904)	(10,102)
Student revenues, net	9,888	-	-	9,888	8,627
Contributions	439	1,226	-	1,665	1,774
Government grants and other contracts	1,254	-	-	1,254	980
Other	2,663	-	-	2,663	1,892
Net assets released for:					
Olin endowment spending	18,500	-	-	18,500	17,700
Other purpose restrictions	1,121	(1,121)	-	-	-
Depreciation	3,740	-	-	3,740	3,793
Total operating revenues	**37,605**	**105**	**-**	**37,710**	**34,766**
Operating expenses					
Instruction	10,459	-	-	10,459	10,537
Research	804	-	-	804	857
Academic support	3,198	-	-	3,198	3,232
Student services	11,045	-	-	11,045	11,094
Sponsored programs	1,750	-	-	1,750	1,377
Development and fundraising	1,535	-	-	1,535	1,449
Institutional support	8,248	-	-	8,248	8,252
Total operating expenses	**37,039**	**-**	**-**	**37,039**	**36,798**
Change in net assets from operating activities	**566**	**105**	**-**	**671**	**(2,032)**
Nonoperating activities					
Contributions	-	-	45	45	449
Transfer between funds	-	(71)	71	-	-
Interest and dividend income	18	2,851	-	2,869	845
Net realized and unrealized gain on long-term investments	416	45,430	-	45,846	29,223
Change in fair value of interest rate agreements	(792)	-	-	(792)	6,808
Loss on extinguishment of debt	-	-	-	-	(2,258)
Net assets released for:					
Olin endowment spending	-	(18,500)	-	(18,500)	(17,700)
Depreciation	-	(3,740)	-	(3,740)	(3,793)
Transfer to facilities renewal and replacement fund	750	(750)	-	-	-
Change in fair value of interest rate agreements	792	(792)	-	-	-
Change in net assets from nonoperating activities	**1,184**	**24,428**	**116**	**25,728**	**13,574**
Change in net assets	**1,750**	**24,533**	**116**	**26,399**	**11,542**
Net assets, beginning of year	**8,840**	**270,681**	**2,725**	**282,246**	**270,704**
Net assets, end of year	**$ 10,590**	**$ 295,214**	**$ 2,841**	**$ 308,645**	**$ 282,246**

See accompanying notes to the financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Activities

(in thousands)

Year Ended June 30,

	2013			
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Operating revenues				
Tuition and fees	$ 13,791	$ -	$ -	$ 13,791
Room and board	4,938	-	-	4,938
Less: Student aid	(10,102)	-	-	(10,102)
Student revenues, net	8,627	-	-	8,627
Contributions	397	1,377	-	1,774
Government grants and other contracts	980	-	-	980
Other	1,892	-	-	1,892
Net assets released for:				
Olin endowment spending	17,700	-	-	17,700
Other purpose restrictions	1,047	(1,047)	-	-
Depreciation	3,793	-	-	3,793
Total operating revenues	**34,436**	**330**	**-**	**34,766**
Operating expenses				
Instruction	10,537	-	-	10,537
Research	857	-	-	857
Academic support	3,232	-	-	3,232
Student services	11,094	-	-	11,094
Sponsored programs	1,377	-	-	1,377
Development and fundraising	1,449	-	-	1,449
Institutional support	8,252	-	-	8,252
Total operating expenses	**36,798**	**-**	**-**	**36,798**
Change in net assets from operating activities	**(2,362)**	**330**	**-**	**(2,032)**
Nonoperating activities				
Contributions	-	-	449	449
Interest and dividend income	9	836	-	845
Net realized and unrealized gain on long-term investments	258	28,965	-	29,223
Change in fair value of interest rate agreements	6,808	-	-	6,808
Loss on extinguishment of debt	(2,258)	-	-	(2,258)
Net assets released for:				
Olin endowment spending	-	(17,700)	-	(17,700)
Depreciation	-	(3,793)	-	(3,793)
Transfer to capital reserve fund	700	(700)	-	-
Change in fair value of interest rate agreements	(6,808)	6,808	-	-
Reclassification for endowment losses exceeding corpus	1	(1)	-	-
Change in net assets from nonoperating activities	**(1,290)**	**14,415**	**449**	**13,574**
Change in net assets	**(3,652)**	**14,745**	**449**	**11,542**
Net assets, beginning of year	12,492	255,936	2,276	270,704
Net assets, end of year	**$ 8,840**	**$ 270,681**	**$ 2,725**	**$ 282,246**

See accompanying notes to the financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Cash Flows
(in thousands)

	Years Ended June 30, 2014	2013
Cash flows from operating activities		
Change in net assets	$ 26,399	$ 11,542
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	4,928	5,223
Net realized and unrealized gain on long-term investments	(45,846)	(29,223)
Contributions designated for long-term investment	(45)	(449)
Loss on write-off and disposal of plant and equipment	10	1
Loss on extinguishment of debt	-	2,258
Change in value of interest rate agreement	792	(6,808)
Change in trusteed funds held for debt service	51	1,664
Change in operating assets and liabilities		
Accounts receivable, prepaid expenses and other assets	(351)	(369)
Contributions receivable	141	42
Accounts payable and accrued expenses, deferred revenues	25	(313)
Net cash used in operating activities	**(13,896)**	**(16,432)**
Cash flows from investing activities		
Purchases of investments	(198,796)	(1,353,553)
Sales and maturities of investments	214,556	1,371,884
Acquisition and construction of property and equipment	(465)	(1,792)
Net cash provided by investing activities	**15,295**	**16,539**
Cash flows from financing activities		
Proceeds from borrowing	-	104,808
Debt issuance costs	(1)	(883)
Repayment of debt	-	(103,910)
Contributions designated for long-term investment	45	449
Net cash provided by financing activities	**44**	**464**
Net increase in cash and cash equivalents	**1,443**	**571**
Cash and cash equivalents, beginning of year	**2,353**	**1,782**
Cash and cash equivalents, end of year	**$ 3,796**	**$ 2,353**
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ 5,215	$ 4,932

See accompanying notes to the 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 350 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 statements of financial position and statements 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 statements 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, at their fair value, 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 (ranging from 2.71% to 4.00%) to account for the inherent risk associated with the expected future cash flows, which are considered to be Level 2 fair value inputs. 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. Gifts that are temporarily restricted are released from restriction when the purpose restrictions are met or by the passage of time, depending on the underlying donor instrument.

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 certain assets and liabilities at fair value on a recurring and nonrecurring basis depending on the underlying accounting policy for the particular item in accordance with fair value standards. Recurring fair value measurements include the College's short-term and long-term investments, trusteed funds held for debt service, and interest rate agreements. Nonrecurring measurements include contributions receivable. 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 of inputs:

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. Level 2 also includes investments reported at net asset value per share with lock up periods of 90 days or less.

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. This category also includes investments with an observable net asset value at the measurement date, but which are less liquid than Level 2. Level 3 also includes investments reported at net asset value per share with lock up periods in excess of 90 days.

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 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

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.

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 approximates $161,361 and $152,690 at June 30, 2014 and 2013, respectively, using Level 2 inputs, based on rates 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

Trusteed funds held for debt service are carried at fair value using Level 1 inputs and consist primarily of funds held for debt service that have been invested in accordance with the various bond agreements.

Plant and Equipment

Land, buildings, and equipment are reported at cost at the date of acquisition or at fair value as indicated above at the date of donation in the case of gifts. Fair value of donated property is effectively determined using Level 3 market inputs. 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

Plant and Equipment (Continued)

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

Interest Rate Agreements

The College reports the value of its interest rate agreements at fair value, per the fair value policies described earlier in this section using Level 2 inputs.

Operating and Nonoperating Activities

The College recognizes revenue on grants and contracts for research as operating revenue 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 capital reserve fund, net assets released from restriction, and certain other nonrecurring items.

Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation. There was no change to total net assets as a result of the reclassifications.

Tax Status

The College is a tax-exempt organization as 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 College, management has concluded that disclosures relative to tax provisions are not necessary.

(in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 its only significant 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 accounting principles generally accepted in the United States of America ("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 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 accounts and contributions receivable, fair value of certain investments, fair value of interest rate swap agreements, the allocation of common expenses over program functions, and releases from restrictions.

Subsequent Events

The College has evaluated subsequent events through October 25, 2014, the date the financial statements were issued.

Note 3 - Contributions Receivable, Net

Contributions receivable consisted of the following at June 30:

	2014	*2013*
Amounts due in:		
Less than one year	$ 332	$ 399
One to five years	310	397
Total due	**642**	**796**
Less:		
Unamortized discount	16	22
Allowance for doubtful accounts	30	37
Contributions receivable, net	**$ 596**	**$ 737**

(in thousands)

Note 4 - Investments

The following are major categories of investments measured at fair value at June 30, 2014 grouped by fair value hierarchy:

	Total	***Level 1***	***Level 2***	***Level 3***
Short-term investments:				
Cash and cash equivalents	$ 842	$ 842	$ -	$ -
Long-term investments, including facilities renewal and replacement fund:				
Cash and cash equivalents	1,804	1,804	-	-
Equity funds - global equity	92,652	92,652	-	-
Fixed income funds - U.S. fixed income	50,557	50,557	-	-
Real asset funds - natural resources				-
and real estate funds	9,454	-	-	9,454
Hedge funds - equity long	94,546	-	-	94,546
Hedge funds - equity hedged	32,661	-	-	32,661
Hedge fund - global macro	32,291	-	-	32,291
Hedge funds - multi-strategy	920	-	-	920
Hedge funds - fixed income/ credit opportunities	37,043	-	-	37,043
Private equity funds	14,966	-	-	14,966
Venture capital funds	13,434	-	-	13,434
Subtotal	380,328	145,013	-	235,315
Trusteed funds held for debt service	15	15	-	-
	$ 381,185	**$ 145,870**	**$ -**	**$ 235,315**

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements
(in thousands)

Note 4 - Investments (Continued)

The following are major categories of investments measured at fair value at June 30, 2013 grouped by fair value hierarchy:

	Total	***Level 1***	***Level 2***	***Level 3***
Short-term investments:				
Cash and cash equivalents	$ 1,713	$ 1,713	$ -	$ -
Long-term investments, including facilities renewal and replacement fund:				
Cash and cash equivalents	20,790	20,790	-	-
Equity funds - global equity	86,777	37,330	49,447	-
Fixed income funds - U.S. fixed income	48,591	48,591	-	-
Real asset funds - natural resources and real estate	16,692	-	-	16,692
Hedge funds - equity long	70,973	-	-	70,973
Hedge funds - equity hedged	27,595	-	-	27,595
Hedge funds - global macro	20,603	-	-	20,603
Hedge funds - multi-strategy	1,086	-	-	1,086
Hedge funds - fixed income/ credit opportunities	31,962	-	-	31,962
Private equity funds	12,689	-	-	12,689
Venture capital funds	11,613	-	-	11,613
Subtotal	349,371	106,711	49,447	193,213
Trusteed funds held for debt service	66	66	-	-
	$ 351,150	**$ 108,490**	**$ 49,447**	**$ 193,213**

(in thousands)

Note 4 - Investments (Continued)

Investment management expenses, which include custody, advisory, and reporting fees and fund administrative expenses, and exclude incentive/performance fees, are estimated to be $3,300 and $3,296 for the years ended June 30, 2014 and 2013, respectively.

The following is a roll forward of the beginning and ending balances for investments measured at fair value using significant unobservable inputs (Level 3) for 2014 and 2013, respectively:

	Real Asset Funds	*Hedge Funds*	*Private Equity Funds*	*Venture Capital Funds*	*Total*
Fair Value, July 1, 2012	**$ 9,268**	**$ 40,013**	**$ 10,206**	**$ 12,398**	**$ 71,885**
Purchases/contributions	10,164	130,816	2,998	1,228	145,206
Sales/distributions	(3,322)	(36,208)	(1,323)	(1,231)	(42,084)
Realized gains (losses)	-	126	-	(15)	111
Unrealized gains (losses)	582	17,472	808	(767)	18,095
Fair Value at June 30, 2013	**16,692**	**152,219**	**12,689**	**11,613**	**193,213**
Purchases/contributions	1,025	20,629	2,182	895	24,731
Sales/distributions	(8,912)	(1,994)	(2,061)	(1,629)	(14,596)
Realized gains (losses)	(15)	1	-	-	(14)
Unrealized gains	664	26,606	2,156	2,555	31,981
Fair Value at June 30, 2014	**$ 9,454**	**$ 197,461**	**$ 14,966**	**$ 13,434**	**$ 235,315**
Unrealized gains (losses) related to Level 3 investments still held at June 30, 2013	**$ 582**	**$ 15,218**	**$ 808**	**$ (767)**	**$ 15,841**
Unrealized gains related to Level 3 investments still held at June 30, 2014	**$ 504**	**$ 26,606**	**$ 2,156**	**$ 2,555**	**$ 31,821**

(in thousands)

Note 4 - Investments (Continued)

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, 2014	*Unfunded Commitments*	*Redemption Frequency (If Currently Eligible)*	*Redemption Notice Period (If Currently Eligible)*
Real asset funds-natural resources and real estate	$ 9,454	$ 2,068	N/A	N/A
Hedge funds	197,461	1,299	Quarterly, Semiannual	90-105 days
Private equity funds	14,966	7,859	N/A	N/A
Venture capital funds	13,434	1,347	N/A	N/A
	$ 235,315	**$ 12,572**		

(in thousands)

Note 5 - Plant and Equipment, Net

Plant and equipment consisted of the following at June 30:

	2014	*2013*
Land	$ 14,605	$ 14,605
Buildings and improvements	131,500	131,390
Equipment	10,968	10,682
Construction in progress	69	10
	157,142	156,687
Less accumulated depreciation	(58,488)	(53,399)
Plant and equipment, net	**$ 98,654**	**$ 103,288**

Note 6 - Pension Plans

Defined Contribution Plan

The College has established a contributory retirement plan (the "Plan") for eligible personnel. The Plan is designed in accordance with the provisions of Section 403(b) of the Code. The College matches three times an eligible employee's mandatory contributions under the Plan. The College's expenses under the Plan were $742 and $738 for the years ended June 30, 2014 and 2013, respectively. The Plan also allows for 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 $980 and $794 at June 30, 2014 and 2013, respectively. The assets and liabilities are recorded in other assets and accounts payable and accrued expenses, respectively.

(in thousands)

Note 7 - Bonds Payable

Bonds payable consisted of the following as of June 30:

		2014		***2013***
Taxable Variable Rate Demand Revenue Bonds Series C-1, maturing serially from 2034 to 2043, at an average rate of 0.31% in 2014 and 0.19% in 2013	$	10,000	$	10,000
Tax-Exempt Variable Rate Demand Revenue Bonds Series C-2, maturing serially from 2034 to 2043, at an average rate of 0.21% in 2014 and 0.17% in 2013		23,000		23,000
Tax-Exempt Variable Rate Demand Revenue Bonds Series C-3, maturing serially from 2034 to 2043, at an average rate of 0.21% in 2014 and 0.17% in 2013		23,000		23,000
Tax-Exempt Revenue Bonds Series 2013 D, at a fixed rate of 2.65%, maturing serially from 2034 to 2043		38,255		38,255
Tax-Exempt Revenue Bonds Series 2013 E, at a fixed rate of 5.00%, maturing serially from 2034 to 2038		26,750		26,750
Tax-Exempt Revenue Bonds Series 2013 E, at a fixed rate of 4.00%, maturing serially from 2039 to 2043		11,000		11,000
Tax-Exempt Revenue Bonds Series 2013 E, at a fixed rate of 5.00%, maturing serially from 2039 to 2043		22,925		22,925
		154,930		154,930
Unamortized bond premium		5,628		5,843
Bonds payable, net	**$**	**160,558**	**$**	**160,773**

During 2013, the College completed a refunding, at par, of the entire outstanding amount of the Series B bonds, with a new issue, Series 2013 E bonds. By issuing the new bonds at a premium, the College was able to reduce the principal of debt outstanding. The College also issued new Series 2013 D bonds, which were used to redeem a portion of the C-2 and C-3 issuances and thereby convert that portion of the debt from variable to fixed rate. The College recorded a loss on these two financing transactions of $2,258, related to the unamortized discount and bond issue costs. The loss is included within the non-operating activities section of the statement of activities for 2013.

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 expires on May 8, 2016.

(in thousands)

Note 7 - Bonds Payable (Continued)

Interest expense was $5,345 and $5,442 for the years ended June 30, 2014 and 2013, respectively, and the fee paid by the College for the Letter of Credit was $243 and $465 for the years ended June 30, 2014 and 2013, respectively.

Unamortized bond discount, bond premium 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, 2014 and 2013.

The College maintains an uncollateralized line of credit agreement with a financial institution. The borrowing limit was $2,000 in 2014 and 2013. There were no outstanding borrowings under this agreement at June 30, 2014 or 2013. The agreement expires on March 31, 2015 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.

The terms of the three swap agreements are as follows:

Notional Amount	*Termination Date*	*Interest Rate Received*	*Interest Rate Paid*	*2014 Fair Value (Liability)*	*2013 Fair Value (Liability)*
$ 40,000	July 1, 2033	USD-3M LIBOR	5.1227%	$ (10,672)	$ (10,333)
40,000	July 1, 2033	USD-3M LIBOR + 0.53%	SIFMA x 1.45	(1,425)	(1,268)
53,190	July 1, 2033	USD-3M LIBOR + 0.55%	SIFMA x 1.45	(2,244)	(1,948)
$ 133,190				**$ (14,341)**	**$ (13,549)**

USD 3M LIBOR and SIFMA were 0.23% and 0.06%, respectively, at June 30, 2014.

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

(in thousands)

Note 8 - Interest Rate Agreements (Continued)

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 ratings of the College, the mark to market liability threshold is $20,000 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, 2014 and 2013, 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 at June 30:

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 Board of Trustees for specific purposes.

	2014	***2013***
Operating	$ 5,352	$ 4,550
Board-designated - facilities renewal and replacement fund	4,396	2,577
Board-designated - capital reserve fund	842	1,713
	$ 10,590	**$ 8,840**

The facilities renewal and replacement fund is a Board-designated quasi-endowment fund, which is used by the College to set aside funding for future capital renewals and replacements.

The capital reserve fund has a short-term focus, and was established by the Board of Trustees in 2011 in order to fund capital-related needs for the next several years.

(in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Temporarily Restricted Net Assets

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

Temporarily restricted portion of the Olin Endowment **-** The funding received from the F.W. Olin Foundation under the Agreement (see Note 1), plus accumulated unspent 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 GAAP 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.

	2014	***2013***
Temporarily restricted portion of the Olin Endowment	$ 240,794	$ 212,943
Purpose restricted	2,713	2,620
Accumulated income/gains on permanently restricted investments	561	296
Time restricted	51,146	54,822
	$ 295,214	**$ 270,681**

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.

(in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Permanently Restricted Net Assets (Continued)

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

	2014	***2013***
Endowment contributions whose income and net gains are restricted for the following purposes:		
Faculty chairs	$ 1,805	$ 1,805
Library support	225	225
Scholarships	590	561
Permanently restricted portion of the Olin Endowment	111	105
Other	110	29
	$ 2,841	**$ 2,725**

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 for the years ended June 30:

	2014	***2013***
Olin Endowment spending	$ 18,500	$ 17,700
Depreciation of gifted plant and equipment	3,740	3,793
Transfer to capital reserve fund	-	700
Transfer to Facility Renewal and Replacement Fund	750	-
Scholarships and financial aid	447	407
Interest rate agreements	792	(6,808)
Other	674	640
	$ 24,903	**$ 16,432**

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.

(in thousands)

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, 2012	**$ 3,104**	**$ 332,833**	**$ 2,275**	**$ 338,212**
Gifts and additions	-	-	164	164
Investment returns:				
Interest and dividends, net of investment expenses	8	1,073	-	1,081
Net realized and unrealized gains	258	28,965	-	29,223
Total investment returns	266	30,038	-	30,304
Expenditures for operations	(1,405)	(17,816)	-	(19,221)
Reclassifications:				
Reclassification to facilities renewal and replacement fund from capital reserve fund	612	-	-	612
Reclassification to capital reserve fund from Olin Endowment	-	(700)	-	(700)
Total reclassifications	612	(700)	-	(88)
Endowment assets and those functioning as endowment assets at June 30, 2013	**2,577**	**344,355**	**2,439**	**349,371**
Gifts and additions	-	-	186	186
Investment returns:				
Interest and dividends, net of investment expenses	26	2,834	-	2,860
Net realized and unrealized gains	416	45,430	-	45,846
Total investment returns	442	48,264	-	48,706
Expenditures for operations	-	(18,561)	-	(18,561)
Reclassifications:				
Reclassification to facilities renewal and replacement fund from capital reserve fund	627	-	-	627
Reclassification to facilities renewal and replacement fund from Olin Endowment	750	(750)	-	-
Total reclassifications	1,377	(750)	-	627
Endowment assets and those functioning as endowment assets at June 30, 2014	**$ 4,396**	**$ 373,308**	**$ 2,625**	**$ 380,329**

Note 9 - Net Assets and Endowment Matters (Continued)

All unrestricted endowment assets as of June 30, 2014 and 2013 represent Board-designated endowment funds in the facilities renewal and replacement fund.

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 5.55% and 5.31% for the years ended June 30, 2014 and 2013, 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. These deficiencies resulted from unfavorable market fluctuations. There were no funds with deficiencies as of June 30, 2014 or 2013.

Note 9 - 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.

Note 10 - Commitments and Contingencies

Various legal cases arise in the normal course of the College's operations. 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, 2014.

The College has long-term employment agreements with certain faculty and staff that stipulate a variety of business terms typical in the education sector.

The College outsources services in connection with its dining, facilities management, and public safety activities under long-term contracts with suppliers. Management believes these arrangements are under commercially reasonable terms.