



Financial Statements

Franklin W. Olin College of Engineering, Inc.

June 30, 2019 and 2018



FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Financial Statements

Table of Contents

Financial Statements:

| | |
|----------------------------------|------|
| Independent Auditors' Report | 1-2 |
| Statements of Financial Position | 3 |
| Statements of Activities | 4-5 |
| Statements of Cash Flows | 6 |
| Notes to Financial Statements | 7-27 |



Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601
www.cbiz.com/newengland

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matters

As discussed in Note 1 to the financial statements, during the year ended June 30, 2019, the College adopted Financial Accounting Standards Board Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 948): Presentation of Financial Statements of Not-for-Profit Entities* and ASU No. 2014-9, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to these matters.

Mayer Hoffmann McCann P.C.

October 19, 2019
Boston, Massachusetts

FRANKLIN W. OLIN COLLEGE OF ENGINEERING
Statements of Financial Position
(in thousands)

June 30,

| | <i>2019</i> | <i>2018</i> |
|----------------------------------------------------------------|-------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ 9,018 | \$ 8,468 |
| Accounts receivable, net | 851 | 838 |
| Contributions receivable, net | 488 | 786 |
| Prepaid expenses and other assets | 2,093 | 2,017 |
| Short-term investments, capital reserve fund | - | 202 |
| Long-term investments | 375,414 | 376,388 |
| Long-term investments, facilities renewal and replacement fund | 8,542 | 7,671 |
| Plant and equipment, net | 77,994 | 81,433 |
| Interest rate swap agreements | 4,112 | 1,845 |
| Total assets | \$ 478,512 | \$ 479,648 |
| Liabilities and Net Assets | | |
| Accounts payable and accrued expenses | \$ 4,663 | \$ 4,198 |
| Deferred revenue and deposits | 4,053 | 4,126 |
| Bonds payable, net | 158,201 | 158,219 |
| Interest rate swap agreements | 13,297 | 9,498 |
| Total liabilities | 180,214 | 176,041 |
| Net assets: | | |
| Without donor restrictions | 48,171 | 50,594 |
| With donor restrictions | 250,127 | 253,013 |
| Total net assets | 298,298 | 303,607 |
| Total liabilities and net assets | \$ 478,512 | \$ 479,648 |

See accompanying notes to financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Activities

(in thousands)

June 30, 2019

| | <i>Without Donor Restrictions</i> | <i>With Donor Restrictions</i> | <i>Total</i> |
|--------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------|
| Operating revenues | | | |
| Student revenues, net of student aid of \$11,749 | \$ 10,530 | \$ - | \$ 10,530 |
| Contributions | 970 | 739 | 1,709 |
| Government grants and other contracts | 1,948 | - | 1,948 |
| Other revenue | 1,783 | - | 1,783 |
| Net assets released for: | | | |
| Olin endowment spending | 20,300 | - | 20,300 |
| Other purpose restrictions | 1,299 | (1,299) | - |
| | <u>36,830</u> | <u>(560)</u> | <u>36,270</u> |
| Total operating revenues | | | |
| Operating expenses | | | |
| Instruction | 11,854 | - | 11,854 |
| Research | 849 | - | 849 |
| Academic support | 3,246 | - | 3,246 |
| Student services | 11,393 | - | 11,393 |
| Sponsored programs | 2,816 | - | 2,816 |
| Development and fundraising | 1,392 | - | 1,392 |
| Institutional support | 8,521 | - | 8,521 |
| | <u>40,071</u> | <u>-</u> | <u>40,071</u> |
| Total operating expenses | | | |
| Change in net assets from operating activities | <u>(3,241)</u> | <u>(560)</u> | <u>(3,801)</u> |
| Nonoperating activities | | | |
| Contributions | - | 165 | 165 |
| Investment return, net of expenses | 421 | 19,941 | 20,362 |
| Change in value of interest rate swap agreements | (1,532) | - | (1,532) |
| Loss on modification of debt | (203) | - | (203) |
| Net assets released for: | | | |
| Olin endowment spending | - | (20,300) | (20,300) |
| Transfer to facilities renewal and replacement fund | 600 | (600) | - |
| Change in value of interest rate swap agreements | 1,532 | (1,532) | - |
| | <u>818</u> | <u>(2,326)</u> | <u>(1,508)</u> |
| Change in net assets from nonoperating activities | | | |
| Change in net assets | <u>(2,423)</u> | <u>(2,886)</u> | <u>(5,309)</u> |
| Net assets, beginning of year | 50,594 | 253,013 | 303,607 |
| Net assets, end of year | <u>\$ 48,171</u> | <u>\$ 250,127</u> | <u>\$ 298,298</u> |

See accompanying notes to the financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Activities

(in thousands)

June 30, 2018

| | <i>Without Donor Restrictions</i> | <i>With Donor Restrictions</i> | <i>Total</i> |
|--------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------|
| Operating revenues | | | |
| Student revenues, net of student aid of \$11,468 | \$ 10,617 | \$ - | \$ 10,617 |
| Contributions | 744 | 725 | 1,469 |
| Government grants and other contracts | 1,760 | - | 1,760 |
| Other revenue | 1,923 | - | 1,923 |
| Net assets released for: | | | |
| Olin endowment spending | 20,000 | - | 20,000 |
| Other purpose restrictions | 1,075 | (1,075) | - |
| | <u>36,119</u> | <u>(350)</u> | <u>35,769</u> |
| Total operating revenues | | | |
| Operating expenses | | | |
| Instruction | 11,233 | - | 11,233 |
| Research | 842 | - | 842 |
| Academic support | 3,454 | - | 3,454 |
| Student services | 11,373 | - | 11,373 |
| Sponsored programs | 2,569 | - | 2,569 |
| Development and fundraising | 1,415 | - | 1,415 |
| Institutional support | 8,783 | - | 8,783 |
| | <u>39,669</u> | <u>-</u> | <u>39,669</u> |
| Total operating expenses | | | |
| Change in net assets from operating activities | <u>(3,550)</u> | <u>(350)</u> | <u>(3,900)</u> |
| Nonoperating activities | | | |
| Contributions | - | 1,168 | 1,168 |
| Investment return, net of expenses | 522 | 27,038 | 27,560 |
| Change in value of interest rate swap agreements | 4,125 | - | 4,125 |
| Net assets released for: | | | |
| Olin endowment spending | - | (20,000) | (20,000) |
| Change in value of interest rate swap agreements | (4,125) | 4,125 | - |
| | <u>522</u> | <u>12,331</u> | <u>12,853</u> |
| Change in net assets from nonoperating activities | | | |
| Change in net assets | <u>(3,028)</u> | <u>11,981</u> | <u>8,953</u> |
| Net assets, beginning of year, as restated | 53,622 | 241,032 | 294,654 |
| Net assets, end of year | <u>\$ 50,594</u> | <u>\$ 253,013</u> | <u>\$ 303,607</u> |

See accompanying notes to the financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Cash Flows
(in thousands)

| | <i>Years Ended June 30,</i> | |
|-----------------------------------------------------------------------------------------|------------------------------------|------------------------|
| | <i>2019</i> | <i>2018</i> |
| Cash flows from operating activities: | | |
| Change in net assets | \$ (5,309) | \$ 8,953 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 4,160 | 4,575 |
| Net realized and unrealized gain on long-term investments | (17,111) | (25,163) |
| Contributions designated for long-term investment | (163) | (507) |
| Loss on modification of debt | 203 | - |
| Change in value of interest rate swap agreements | 1,532 | (4,125) |
| Change in operating assets and liabilities: | | |
| Accounts receivable, prepaid expenses and other assets | (89) | (493) |
| Contributions receivable | 298 | (466) |
| Accounts payable and accrued expenses, deferred revenues and deposits | 391 | 1,277 |
| | <u>391</u> | <u>1,277</u> |
| Net cash used in operating activities | <u>(16,088)</u> | <u>(15,949)</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | (54,353) | (84,953) |
| Sales and maturities of investments | 71,769 | 102,336 |
| Acquisition and construction of property and equipment | (860) | (679) |
| | <u>(860)</u> | <u>(679)</u> |
| Net cash provided by investing activities | <u>16,556</u> | <u>16,704</u> |
| Cash flows from financing activities: | | |
| Debt issuance costs | (81) | - |
| Contributions designated for long-term investment | 163 | 507 |
| | <u>163</u> | <u>507</u> |
| Net cash provided by financing activities | <u>82</u> | <u>507</u> |
| Net increase in cash and cash equivalents | 550 | 1,262 |
| Cash and cash equivalents, beginning of year | <u>8,468</u> | <u>7,206</u> |
| Cash and cash equivalents, end of year | \$ <u>9,018</u> | \$ <u>8,468</u> |
| Supplemental disclosure of cash flows information: | | |
| Cash paid for interest | <u>\$ 5,365</u> | <u>\$ 5,665</u> |

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 350 students predominantly drawn from across the United States, all of whom receive an eight-semester partial 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 Commission of Higher Education, Inc., 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 net assets without donor restrictions 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 net assets with donor restrictions, 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. Through its Collaboratory, the College seeks to globally transform the education of undergraduate engineers by stimulating transformational educational experiences with and for other colleges and universities.

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 its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes in net assets are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor-imposed restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions that expire by the passage of time, can be fulfilled by actions pursuant to the restrictions, or which may be perpetual.

The College reports gifts of cash and other assets as net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restrictions.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements *(in thousands)*

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Included in cash and cash equivalents at June 30, 2019 is restricted cash of approximately \$4,101 that primarily represents grant and gift funds with donor restrictions paid in advance that have yet to be expended. These amounts are reported at cost plus accrued interest, with such amounts being primarily held in money market accounts.

Student Accounts Receivable

Students are billed based on dates outlined in the academic catalog as agreed in advance of the delivery of the related academic activity or room and board. Payments for tuition, fees and room and board are generally due by the start of the academic period with the recognition that any payments made on behalf of the students by the Department of Education (“DOE”) or others are subject to specific requirements within those programs as to when those funds can be availed. Certain DOE funding can be availed prior to the commencement of the academic period, while other amounts are paid at specified intervals based on the rules as promulgated by the DOE. Thus cash flows on accounts receivable balances and the measurement of deferred revenues do not directly depend on meeting specified performance obligations of the College. Student accounts are not collateralized.

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 net assets with donor restrictions if the terms of the original gift require that they be applied to the principal of a permanent endowment fund or 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 net assets without donor restrictions 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 net assets with or without donor restrictions, 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.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements (in thousands)

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. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Recurring fair value measurements include the College's short-term and long-term investments, and interest rate swap 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 ("NAV") per share as determined by investment managers under the so called "practical expedient." The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value standards also require the College to classify financial instruments (except for those measured using NAV) into a three-level hierarchy, based on the priority of inputs to the valuation technique.

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 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.

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.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Deferred Revenue and Deposits

Student deposits represent reservation deposits and other advance payments by students on account. Deferred revenue primarily represents conditional grant funds received in advance that have yet to be expended and student deposits and advance payments. Such amounts are reflected as revenue ratably over time with such amounts generally being recognized on a current basis given the nature and duration of the underlying services being provided.

Plant and Equipment

Land, buildings and equipment are recorded when the useful life is over one year at cost at the date of acquisition when such amounts exceed a management established capitalization threshold 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; costs for maintenance and repairs are expensed as incurred.

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

| | <i>Years</i> |
|----------------------------|--------------|
| Land improvements | 10 to 40 |
| Buildings and improvements | 15 to 40 |
| Equipment | 3 to 20 |

Interest Rate Swap Agreements

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

Operating and Nonoperating Activities

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, realized and unrealized gains on interest rate swap agreements, donor restricted contributions primarily for capital and endowment gifts, transfers to the facilities renewal and replacement fund, net assets released from restriction related to Olin endowment spending, and certain other nonrecurring items.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions.

The College derives revenues through tuition, fees and room and board, all of which are under arrangements that are aligned to an academic semester which is less than one year in length.

Tuition, fees and room and board revenue are recorded at established rates, net of institutional financial aid and scholarships provided directly to students; and therefore amounts are deemed to be fixed and determinable. Such net amounts are recorded as revenue when performance obligations are satisfied which is generally over time as services are rendered whether relating to educational services or room and board. Management believes that recognizing revenue over time is the best measure of services rendered based on its academic calendar and has not made any changes in the timing of the satisfaction of its performance obligations or amounts allocated to those obligations. Management does not consider there to be significant judgment involved in the timing of satisfaction of performance obligations as those are directly linked to the academic calendar of the related academic activity.

Students may withdraw from programs of study within certain time limits as under the College's withdrawal policy by semester. The policy allows for up to a 100% refund prior to the start of classes declining to no refund at thirty three days after the start of classes. There is no exposure to such at year end given the normal timing of the College's programs.

Payments made by third parties such as the DOE relative to loans and grants to students are a mechanism to facilitate payment on behalf of students, and accordingly, such funding does not represent revenue of the College.

Contributions, including unconditional promises to give, are recognized as revenues as either without or with donor restrictions in the period verifiably committed by the donor. Contributions of assets other than cash are recorded at their estimated fair value and per the fair value policies described elsewhere in these policies. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows using a risk adjusted discount rate depending on the time period involved (ranging from 3.17% to 4.78%). Amortization of the discount is included in contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Contributions with donor-imposed restrictions that can be met through the passage of time or upon the incurring of expenses consistent with the purposes are recorded as net assets with donor restrictions and reclassified to net assets without donor restrictions when such time or purposes restriction has been satisfied. Gifts of property, plant and equipment are recorded as without donor restrictions unless the donor explicitly states how such assets should be used. Gifts of cash or other assets that must be used to acquire long lived assets are reported as net assets with donor restrictions. The College reports expirations of donor restrictions when the donated or acquired long lived asset is placed into service. Conditional contributions are recorded as revenue when such amounts become unconditional which generally involves the meeting of a barrier to entitlement. This can include items like meeting a matching provision, incurring specified allowable expenses in accordance with a framework of allowable costs or other barriers.

The College had conditional grants based on the incursion of qualified costs under grants and contracts of approximately \$4,000 at June 30, 2019.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements *(in thousands)*

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Facilities rental income (included with other income on the statement of activities) and grants and contracts income are recorded as revenue over time as earned.

Investment returns are reported as revenue based on the fair value of such investments at year end. Such returns are allocated ratably based on the relative proportion of funds invested with donor restrictions and those without donor restrictions. Investment returns allocated to net assets with donor restrictions remain in such category until appropriated by the board under the board approved spending policy unless otherwise required by the terms of the gift that they be added to the principal of the endowment.

Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to an audit. The recovery of indirect costs is pursuant to a negotiated agreement, which provides for a predetermined fixed indirect cost rate.

Tax Status

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 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.

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.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications have been made to the 2018 financial statements in order to conform to the current presentation.

New Accounting Pronouncements

In 2019, the College adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard addresses inconsistencies in revenue recognition by outlining a principle-based system which requires that there be a contract with a customer, that performance obligations be identified, that transaction price be determined, that transaction price is allocated to performance obligations and that revenue be recorded when or as the performance obligations are satisfied over the contract term. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The College adopted this standard using the modified retrospective approach on July 1, 2018.

The adoption of this standard did not impact reported revenue in any period because: (1) performance obligations were determined to be similar as compared with deliverables previously identified; (2) transaction price is consistent; and (3) revenue was recorded in the same manner as under prior standards. In evaluating the effects of the change, contracts in process as of the date of adoption were considered under the practical expedient allowed under the standard.

Associated with the adoption of this standard, consideration was given to the accounting treatment of certain costs to obtain and fulfill a contract. Certain incremental costs of obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer, that are not in the scope of other existing guidance, should be analyzed for capitalization. There were no costs incurred to obtain and fulfill contracts and accordingly, no change was made to this accounting.

The College also adopted ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* and ASU No. 2018-08 *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

The financial statement standard addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses, evolving to two net asset classes from what had previously been three and investment return.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

The contribution standard addresses inconsistencies in revenue recognition when an item should be considered a contribution or an exchange type transaction. Exchanges would be accounted for using the revenue recognition standards above. It also provides guidance as to when a contribution should be considered conditional which, for example, is often the case when funds are received under federal grants and contracts. Conditional contributions have different revenue recognition when compared to non-reciprocal transfers of resources in that amounts are reflected as earned when barriers to entitlement are overcome with any difference being deferred or a receivable, as applicable.

The contribution standard was applied using the modified retrospective method. This method was applied to transactions that were not complete or had otherwise already been recognized as of the beginning of fiscal year 2019. The adoption of the new standard did not have an impact on 2019 results. In evaluating the effects of the change, contributions in process as of the date of adoption were considered.

Since the adoption of the changes in both revenue recognition and contribution accounting did not have an impact on 2019 results, no disclosures have been provided on their effect on the June 30, 2019 financial statements. Certain changes from adopting these new standards resulted in changes to terminology which impacted certain disclosures and presentation of amounts.

As part of the financial statement standard, the placed-in-service approach will be used for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset, with a reclassification from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption. In fiscal 2019, the College retrospectively adopted this standard. As of July 1, 2017, \$40,371 has been reclassified from net assets with donor restrictions to net assets without donor restrictions; there is no impact to the change in total net assets for either year.

The financial statement standard was applied to all periods presented with the new categories as prescribed by the standard.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

*Notes to Financial Statements
(in thousands)*

Note 2 - Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

A summary of the net asset reclassifications resulting from the adoption of ASU 2016-14 as of July 1, 2017 and June 30, 2018 is as follows:

| | ASU 2016-14 Classification | | |
|------------------------------------------------------------------------------------------|---------------------------------------|------------------------------------|-----------------------------|
| | Without donor restrictions | With donor restrictions | Total Net Assets |
| July 1, 2017 net assets: | | | |
| Unrestricted | \$ 13,251 | \$ - | \$ 13,251 |
| Temporarily restricted | - | 277,755 | 277,755 |
| Permanently restricted | - | 3,648 | 3,648 |
| Reclassification to implement ASU no. 2016-14 | 40,371 | (40,371) | - |
| July 1, 2017 net assets, as restated | 53,622 | 241,032 | 294,654 |
| FY18 Change in net assets, as initially reported | 311 | 8,642 | 8,953 |
| Adjustment to FY18 Change in net assets for reclassification of release for depreciation | (3,339) | 3,339 | - |
| June 30, 2018 net assets, as restated | 50,594 | 253,013 | 303,607 |

Subsequent Events

The College has evaluated subsequent events through October 19, 2019, the date the financial statements were issued.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements (in thousands)

Note 3 – Liquidity and Availability

The College's financial assets and resources available for general expenditures within one year of June 30 are as follows:

| | <i>2019</i> | <i>2018</i> |
|---------------------------------------------------------------------------------|------------------|------------------|
| Financial Assets: | | |
| Cash and cash equivalents | \$ 4,917 | \$ 4,851 |
| Accounts and contributions receivable | 894 | 868 |
| Amounts appropriated for spending in the following year: | | |
| Short-term investments | - | 202 |
| Facilities renewal and replacement fund (FRRF) | 70 | 250 |
| Olin endowment | 21,400 | 20,739 |
| Total financial assets available within one year | 27,281 | 26,910 |
| Liquidity Resources: | | |
| Line of credit, maximum available | 10,000 | 2,000 |
| Total financial assets and liquidity resources available within one year | \$ 37,281 | \$ 28,910 |

The College regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

The Facilities Renewal and Replacement Fund is a board-designated quasi-endowment fund, with a balance of \$8,542 and \$7,671 as of June 30, 2019 and 2018, respectively. These investments are designated for long-term renewal and replacement of the campus facilities, but they could be made available for general expenditures if necessary.

The College manages the Olin Endowment to be available as its operating expenditures, liabilities, and other obligations come due. Funds are kept invested in the Olin Endowment until needed. On a monthly basis, funds are drawn from the Olin Endowment to meet current cash needs. Although the College does not intend to spend from the Olin Endowment more than is appropriated through the annual budget approval process, additional amounts could be made available if necessary. The balance in the Olin Endowment was \$370,501 and \$371,698 as of June 30, 2019 and 2018, respectively. As of June 30, 2019, approximately 36% of the Olin Endowment is invested in highly liquid securities which could be converted to cash within a day.

As further described in Note 8, the College also has a \$2,000 demand line of credit as of June 30, 2018 and a \$10,000 committed line of credit as of June 30, 2019, which it could draw upon in the event of a liquidity need.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements
(in thousands)

Note 4 - Contributions Receivable, Net

Contributions receivable, net, consisted of the following at June 30:

| | <i>2019</i> | <i>2018</i> |
|--------------------------------------|----------------------|----------------------|
| Amounts due in: | | |
| Less than one year | \$ 298 | \$ 528 |
| One to five years | <u>230</u> | <u>320</u> |
| Total due | 528 | 848 |
| Less: | | |
| Unamortized discount | 14 | 23 |
| Allowance for doubtful accounts | <u>26</u> | <u>39</u> |
| Contributions receivable, net | \$ <u>488</u> | \$ <u>786</u> |

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements
(in thousands)

Note 5 - Investments

The following table summarizes the valuation of the College's investments at June 30, 2019:

| | <i>Total</i> | <i>Investments Measured at NAV</i> | <i>Level 1</i> |
|---------------------------------------------------------------------------|-------------------|--------------------------------------------|-------------------|
| Long-term investments, including facilities renewal and replacement fund: | | | |
| Cash and cash equivalents | 10,037 | - | 10,037 |
| Equity funds | 180,858 | 93,680 | 87,178 |
| Fixed income funds | 70,331 | 29,820 | 40,511 |
| Real asset funds - natural resources and real estate | 5,226 | 5,226 | - |
| Hedge funds - equity hedged | 34,145 | 34,145 | - |
| Hedge funds - global macro | 33,830 | 33,830 | - |
| Hedge funds - multi-strategy | 53 | 53 | - |
| Hedge funds - fixed income/credit opportunities | 1,028 | 1,028 | - |
| Private equity funds | 37,431 | 37,431 | - |
| Venture capital funds | 11,017 | 11,017 | - |
| Total | \$ 383,956 | \$ 246,230 | \$ 137,726 |

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements
(in thousands)

Note 5 - Investments (Continued)

The following table summarizes the valuation of the College's investments at June 30, 2018:

| | <i>Total</i> | <i>Investments Measured at NAV</i> | <i>Level 1</i> |
|---------------------------------------------------------------------------|--------------|--------------------------------------------|----------------|
| Short-term investments: | | | |
| Cash and cash equivalents | \$ 202 | \$ - | \$ 202 |
| Long-term investments, including facilities renewal and replacement fund: | | | |
| Cash and cash equivalents | 6,163 | - | 6,163 |
| Equity funds | 179,041 | 94,578 | 84,463 |
| Fixed income funds | 84,352 | 31,175 | 53,177 |
| Real asset funds - natural resources and real estate | 7,021 | 7,021 | - |
| Hedge funds - equity hedged | 31,533 | 31,533 | - |
| Hedge funds - global macro | 35,243 | 35,243 | - |
| Hedge funds - multi-strategy | 83 | 83 | - |
| Hedge funds - fixed income/ credit opportunities | 1,521 | 1,521 | - |
| Private equity funds | 27,757 | 27,757 | - |
| Venture capital funds | 11,345 | 11,345 | - |
| Subtotal | 384,059 | 240,256 | 143,803 |
| | \$ 384,261 | \$ 240,256 | \$ 144,005 |

Unfunded commitments under various investment vehicles amounted to \$28,560 at June 30, 2019. Management has no intentions or plans to liquidate any NAV practical expedient investments at other than NAV per share.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements
(in thousands)

Note 5 - Investments (Continued)

Aggregate investments liquidity is presented below at fair value based on redemption or sale period at June 30:

| | | <i>2019</i> | | <i>2018</i> |
|----------|-----------|----------------|-----------|----------------|
| Daily | \$ | 137,726 | \$ | 144,005 |
| Monthly | | 191,474 | | 192,529 |
| Illiquid | | 54,756 | | 47,727 |
| | \$ | 383,956 | \$ | 384,261 |

Note 6 - Plant and Equipment, Net

Plant and equipment consisted of the following at June 30:

| | | <i>2019</i> | | <i>2018</i> |
|---------------------------------|-----------|---------------|-----------|---------------|
| Land and improvements | \$ | 14,717 | \$ | 14,717 |
| Buildings and improvements | | 131,307 | | 131,056 |
| Equipment | | 10,935 | | 10,582 |
| Construction in process | | 198 | | 148 |
| | | 157,157 | | 156,503 |
| Less accumulated depreciation | | (79,163) | | (75,070) |
| Plant and equipment, net | \$ | 77,994 | \$ | 81,433 |

Depreciation expense amounted to \$4,300 and \$4,713 for the years ended June 30, 2019 and 2018, respectively. The College disposed of \$206 and \$41 of fully-depreciated fixed assets for the years ended June 30, 2019 and 2018, respectively.

Note 7 - 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 \$954 and \$916 for the years ended June 30, 2019 and 2018, respectively. The Plan also allows for voluntary employee contributions.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements
(in thousands)

Note 7 - Pension Plans (Continued)

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 management or highly-compensated employees. The assets and liabilities of this plan are recorded in the statements of financial position and total \$1,255 and \$1,064 at June 30, 2019 and 2018, respectively. The assets and liabilities are recorded in prepaid expenses and other assets and accounts payable and accrued expenses, respectively.

Note 8 - Bonds Payable

Bonds payable consisted of the following as of June 30:

| | 2019 | 2018 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Privately held Taxable Variable Rate Demand Revenue Bonds Series C-1, maturing serially from 2034 to 2043, at an average rate of 3.17% in 2019 and 2.34% in 2018 | \$ 10,000 | \$ 10,000 |
| Privately held Tax-Exempt Variable Rate Demand Revenue Bonds Series C-2, maturing serially from 2034 to 2043, at an average rate of 2.22% in 2019 and 1.64% in 2018 | 23,000 | 23,000 |
| Privately held Tax-Exempt Variable Rate Demand Revenue Bonds Series C-3, maturing serially from 2034 to 2043, at an average rate of 2.22% in 2019 and 1.64% in 2018 | 23,000 | 23,000 |
| Privately held Tax-Exempt Revenue Bonds Series 2013 D, at a fixed rate of 2.65%, maturing serially from 2034 to 2043 | - | 38,255 |
| Privately held Tax-Exempt Revenue Bonds Series 2013 D, at a fixed rate of 2.19%, maturing serially from 2034 to 2043 | 38,255 | - |
| Publicly placed Tax-Exempt Revenue Bonds Series 2013 E, at a fixed rate of 5.00%, maturing serially from 2034 to 2038 | 26,750 | 26,750 |
| Publicly placed Tax-Exempt Revenue Bonds Series 2013 E, at a fixed rate of 4.00%, maturing serially from 2039 to 2043 | 11,000 | 11,000 |
| Publicly placed 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 |
| Add: Unamortized bond premium/discount, net | 4,556 | 4,771 |
| Less: Bond issuance costs | (1,285) | (1,482) |
| Bonds payable, net | \$ 158,201 | \$ 158,219 |

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements (in thousands)

Note 8 - Bonds Payable (Continued)

All of the bonds have interest only payments with principal payments beginning when the bonds mature serially starting in 2034. All bonds are secured by the revenues of the College.

The Series 2013 D bonds were previously held by a bank under a direct purchase agreement. A call option became available in May 2018. In May 2019, the College moved the direct purchase to another bank and lowered the fixed interest rate from 2.65% to 2.19%. The College recorded a loss on the transaction of \$203, related to the unamortized bond issue cost. The loss is included within the nonoperating activities section of the statement of activities for 2019.

Interest expense was \$5,370 and \$5,633 for the years ended June 30, 2019 and 2018, respectively.

Unamortized bond discount, premium and issuance costs are being amortized using the straight-line method through the final maturity date of each respective bond issue. Bond issuance costs of \$1,799 are included in bonds payable net of accumulated amortization of \$514 and \$440 at June 30, 2019 and 2018, respectively. Net accretion from bond issuance costs and bond premium/discount amounted to \$139 for the years ended June 30, 2019 and 2018.

The terms of the various bond issuances include certain financial covenants such as maintaining certain values of net assets available for debt service and a certain ratio of investments to liabilities.

The College maintains an uncollateralized line of credit agreement with a financial institution. The borrowing limit was increased from a demand line of credit of \$2,000 in 2018 to a committed line of credit of \$10,000 in 2019. There were no outstanding borrowings at June 30, 2019 or 2018. The new agreement expires on June 27, 2020 and will be reviewed annually to determine whether the line of credit should be renewed.

Note 9 - Interest Rate Swap 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:

| <i>Notional Amount</i> | <i>Termination Date</i> | <i>Interest Rate Received</i> | <i>Interest Rate Paid</i> | <i>2019 Fair Value Asset/(Liability)</i> | <i>2018 Fair Value Asset/(Liability)</i> |
|----------------------------|-----------------------------|-----------------------------------|-------------------------------|--------------------------------------------------|--------------------------------------------------|
| \$ 40,000 | July 1, 2033 | USD-3M LIBOR | 5.1227% | \$ (13,297) | \$ (9,498) |
| 40,000 | July 1, 2033 | USD-3M LIBOR + 0.53% | SIFMA x 1.45 | 1,718 | 785 |
| <u>53,190</u> | July 1, 2033 | USD-3M LIBOR + 0.55% | SIFMA x 1.45 | <u>2,394</u> | <u>1,060</u> |
| <u>\$ 133,190</u> | | | | <u>\$ (9,185)</u> | <u>\$ (7,653)</u> |

USD 3M LIBOR and SIFMA were 2.32% and 1.90%, respectively, at June 30, 2019. The swaps are categorized as Level 2 in the fair value hierarchy.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements *(in thousands)*

Note 9 - Interest Rate Swap 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, 2019 and 2018, 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 obligations.

Note 10 - Net Assets and Endowment Matters

Interpretation of Relevant Law and Spending Policy

The College classifies the endowment portion of net assets with donor restrictions as: (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 endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Also classified as net assets with donor restrictions is accumulated appreciation on donor-restricted endowment funds until those amounts are appropriated for expenditure by the College.

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

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 5.77% and 5.51% for the years ended June 30, 2019 and 2018, respectively. Accrued draws in excess of 6% are permitted without Board approval. All other endowments can be spent up to 5% of their twelve quarter trailing average.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

*Notes to Financial Statements
(in thousands)*

Note 10 - Net Assets and Endowment Matters (Continued)

| The purpose restrictions of net assets as of June 30, 2019 are as follows: | <i>Without Donor Restrictions</i> | <i>With Donor Restrictions</i> | <i>Total</i> |
|---------------------------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------|
| Operating, undesignated | \$ 39,629 | \$ | \$ 39,629 |
| Board-designated - facilities renewal and replacement fund | 8,542 | | 8,542 |
| Portion of the Olin endowment restricted for purpose | | 242,198 | 242,198 |
| Other donor-restricted | | 2,508 | 2,508 |
| Accumulated income/gains on endowment funds | | 1,236 | 1,236 |
| Endowment funds: | | | |
| Faculty chairs | | 1,806 | 1,806 |
| Scholarships | | 1,495 | 1,495 |
| Library support | | 225 | 225 |
| Portion of the Olin endowment restricted in perpetuity | | 169 | 169 |
| Other | | 490 | 490 |
| Total net assets | \$ 48,171 | \$ 250,127 | \$ 298,298 |

| The purpose restrictions of net assets as of June 30, 2018 are as follows: | <i>Without Donor Restrictions</i> | <i>With Donor Restrictions</i> | <i>Total</i> |
|---------------------------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------|
| Operating, undesignated | \$ 42,721 | | \$ 42,721 |
| Board-designated - facilities renewal and replacement fund | 7,671 | | 7,671 |
| Board-designated - capital reserve fund | 202 | | 202 |
| Portion of the Olin endowment restricted for purpose | | 245,142 | 245,142 |
| Other donor-restricted | | 2,922 | 2,922 |
| Accumulated income/gains on endowment funds | | 939 | 939 |
| Endowment funds: | | | |
| Faculty chairs | | 1,805 | 1,805 |
| Scholarships | | 1,343 | 1,343 |
| Library support | | 225 | 225 |
| Portion of the Olin endowment restricted in perpetuity | | 164 | 164 |
| Other | | 473 | 473 |
| Total net assets | \$ 50,594 | \$ 253,013 | \$ 303,607 |

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. Transfers to the fund are typically approved via the annual budget process.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

*Notes to Financial Statements
(in thousands)*

Note 10 - Net Assets and Endowment Matters (Continued)

The capital reserve fund has a short-term focus and was established by the Board of Trustees in order to fund capital-related needs. The fund has been spent as of June 30, 2019.

Donor-restricted funds functioning as endowment includes 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.

| | <i>Without Donor Restrictions</i> | <i>With Donor Restrictions</i> | <i>Total</i> |
|----------------------------------------------------------------------------------------|---------------------------------------|------------------------------------|--------------------------|
| Endowment assets and those functioning as endowment assets at June 30, 2017 | \$ <u>7,165</u> | \$ <u>369,114</u> | \$ <u>376,279</u> |
| Gifts and additions | <u>-</u> | <u>367</u> | <u>367</u> |
| Investment return, net of expenses | <u>531</u> | <u>27,044</u> | <u>27,575</u> |
| Expenditures for operations | <u>-</u> | <u>(20,137)</u> | <u>(20,137)</u> |
| Reclassifications: | | | |
| Reclassification from facilities renewal and replacement fund to operating account | <u>(25)</u> | <u>-</u> | <u>(25)</u> |
| Total reclassifications | <u>(25)</u> | <u>-</u> | <u>(25)</u> |
| Endowment assets and those functioning as endowment assets at June 30, 2018 | \$ <u>7,671</u> | \$ <u>376,388</u> | \$ <u>384,059</u> |
| Gifts and additions | <u>-</u> | <u>150</u> | <u>150</u> |
| Investment return, net of expenses | <u>430</u> | <u>19,943</u> | <u>20,373</u> |
| Expenditures for operations | <u>-</u> | <u>(20,467)</u> | <u>(20,467)</u> |
| Reclassifications: | | | |
| Reclassification to facilities renewal and replacement fund from Olin Endowment | 600 | (600) | - |
| Reclassification from facilities renewal and replacement fund to operating account | <u>(159)</u> | <u>-</u> | <u>(159)</u> |
| Total reclassifications | <u>441</u> | <u>(600)</u> | <u>(159)</u> |
| Endowment assets and those functioning as endowment assets at June 30, 2019 | \$ <u><u>8,542</u></u> | \$ <u><u>375,414</u></u> | \$ <u><u>383,956</u></u> |

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements (in thousands)

Note 10 - Net Assets and Endowment Matters (Continued)

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 are reported in net assets with donor restrictions. These deficiencies result from unfavorable market fluctuations. There were no funds with deficiencies as of June 30, 2019 or 2018.

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 11 - Functional Expenses

The statement of activities present expenses by functional classification. The table below presents expenses by both their nature and function. The College's primary program service is Instruction. Expenses reported in all other categories are incurred in support of this primary program. Operation and maintenance of plant, debt service, and depreciation expense are allocated based on square footage.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements (in thousands)

Note 11 - Functional Expenses (Continued)

Functional expenses for the year ended June 30, 2019, are as follows:

| | <i>Instruction</i> | <i>Academic Support & Research</i> | <i>Student Services</i> | <i>Sponsored Programs</i> | <i>Development & Fundraising</i> | <i>Institutional Support</i> | <i>Plant</i> | <i>Total</i> |
|-----------------------------------------------|--------------------|------------------------------------------------|-----------------------------|-------------------------------|------------------------------------------|----------------------------------|-----------------|------------------|
| Salaries | \$ 5,666 | \$ 1,285 | \$ 1,618 | \$ 1,684 | \$ 722 | \$ 3,816 | \$ - | \$ 14,791 |
| Benefits | 1,460 | 343 | 448 | 365 | 198 | 1,012 | - | 3,826 |
| Program, Supplies & Other | 463 | 827 | (26) | 134 | 57 | 1,135 | (56) | 2,534 |
| Professional Services | 60 | 30 | 395 | 247 | 144 | 966 | 43 | 1,885 |
| Outsourced Services | - | - | 1,597 | - | 1 | 437 | 2,529 | 4,564 |
| Facilities Services and Insurance | 38 | 2 | - | 34 | - | 293 | 1,380 | 1,747 |
| Training, Travel and Meals | 146 | 138 | 275 | 196 | 43 | 242 | - | 1,040 |
| Debt Service | - | - | - | - | - | - | 5,524 | 5,524 |
| Depreciation and Amortization | - | - | - | - | - | - | 4,160 | 4,160 |
| Total expenses before plant allocation | 7,833 | 2,625 | 4,307 | 2,660 | 1,165 | 7,901 | 13,580 | 40,071 |
| Plant Allocation | 4,021 | 1,470 | 7,086 | 156 | 227 | 620 | (13,580) | - |
| Total expenses | \$ 11,854 | \$ 4,095 | \$ 11,393 | \$ 2,816 | \$ 1,392 | \$ 8,521 | \$ - | \$ 40,071 |

Note 12 - 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, 2019.

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 its dining services under a long-term contract with a supplier through June 2021. Management believes this arrangement is under commercially reasonable terms.

The College outsources its facilities services under a long-term contract with a supplier through June 2022. Management believes this arrangement is under commercially reasonable terms.

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