

# **Financial Statements and Supplemental Information**

## **Franklin W. Olin College of Engineering, Inc.**

June 30, 2007 and 2006

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

*Financial Statements and Supplemental Information*

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*Independent Auditors' Report*

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

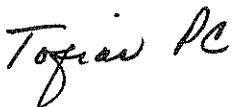
We have audited the accompanying statements of financial position of Franklin W. Olin College of Engineering, Inc. (the College) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Franklin W. Olin College of Engineering, Inc. as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2007, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



October 22, 2007  
Cambridge, Massachusetts

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

*Statements of Financial Position*

(in thousands)

June 30,

Assets	2007	2006
Current assets:		
Cash and cash equivalents	\$ 1,263	\$ 1,110
Accounts receivable, net	588	398
Prepaid expenses and other current assets	610	568
Employee loans receivable, net	617	627
Trusteed funds held for construction, at fair value	1,208	2,122
Interest rate agreements	5,492	-
Unamortized bond issuance costs	4,597	4,777
Contributions receivable, net	5,070	5,090
Long-term investments, at fair value	482,662	432,114
Plant and equipment, net	129,658	134,341
<b>Total assets</b>	<b>\$ 631,765</b>	<b>\$ 581,147</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,121	\$ 2,828
Deferred revenue and deposits	701	784
Bonds payable, net	157,934	157,885
Interest rate agreements	-	1,857
<b>Total liabilities</b>	<b>161,756</b>	<b>163,354</b>
Net assets:		
Unrestricted	16,554	14,851
Temporarily restricted	451,531	401,079
Permanently restricted	1,924	1,863
<b>Total net assets</b>	<b>470,009</b>	<b>417,793</b>
<b>Total liabilities and net assets</b>	<b>\$ 631,765</b>	<b>\$ 581,147</b>

**FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.**

*Statements of Activities*  
(in thousands)

Years Ended June 30,

	2007				2006 *
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
<b>Operating revenues</b>					
Tuition and fees	\$ 10,055	\$ -	\$ -	\$ 10,055	\$ 8,963
Room and board	3,470	-	-	3,470	3,010
Less: Student aid	(10,455)	-	-	(10,455)	(9,669)
Student revenues, net	<u>3,070</u>	<u>-</u>	<u>-</u>	<u>3,070</u>	<u>2,304</u>
Contributions	217	93	-	310	251
Government grants and other contracts	2,021	-	-	2,021	2,302
Miscellaneous	1,175	391	-	1,566	884
Net assets released for Olin Endowment spending	20,493	-	-	20,493	24,773
Net assets released for other purpose restrictions	405	(412)	7	-	-
Net assets released for depreciation	<u>4,744</u>	<u>-</u>	<u>-</u>	<u>4,744</u>	<u>4,747</u>
<b>Total operating revenues</b>	<u><b>32,125</b></u>	<u><b>72</b></u>	<u><b>7</b></u>	<u><b>32,204</b></u>	<u><b>35,261</b></u>
<b>Operating expenses</b>					
Instruction	11,866	-	-	11,866	11,175
Research	1,117	-	-	1,117	1,122
Academic support	3,187	-	-	3,187	3,307
Student services	10,923	-	-	10,923	10,612
Sponsored programs	2,300	-	-	2,300	2,382
Development and fundraising	509	-	-	509	371
Institutional support	<u>6,767</u>	<u>-</u>	<u>-</u>	<u>6,767</u>	<u>6,537</u>
<b>Total operating expenses</b>	<u><b>36,669</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>36,669</b></u>	<u><b>35,506</b></u>
<b>Change in net assets from operating activities</b>	<u><b>(4,544)</b></u>	<u><b>72</b></u>	<u><b>7</b></u>	<u><b>(4,465)</b></u>	<u><b>(245)</b></u>
<b>Nonoperating activities</b>					
Contributions, net	-	28	54	82	36
Interest and dividend income	755	9,078	-	9,833	6,783
Net realized and unrealized gain on long-term investments	-	64,654	-	64,654	28,996
Net assets released for Olin Endowment spending	-	(20,493)	-	(20,493)	(24,773)
Net assets released for depreciation	-	(4,744)	-	(4,744)	(4,747)
Change in fair value of interest rate agreement	7,349	-	-	7,349	(1,857)
Reversal of prior year accrued loss for interest rate agreement	<u>(1,857)</u>	<u>1,857</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Change in net assets from nonoperating activities</b>	<u><b>6,247</b></u>	<u><b>50,380</b></u>	<u><b>54</b></u>	<u><b>56,681</b></u>	<u><b>4,438</b></u>
<b>Change in net assets</b>	<b>1,703</b>	<b>50,452</b>	<b>61</b>	<b>52,216</b>	<b>4,193</b>
<b>Net assets, beginning of year</b>	<u><b>14,851</b></u>	<u><b>401,079</b></u>	<u><b>1,863</b></u>	<u><b>417,793</b></u>	<u><b>413,600</b></u>
<b>Net assets, end of year</b>	<u><u><b>\$ 16,554</b></u></u>	<u><u><b>\$ 451,531</b></u></u>	<u><u><b>\$ 1,924</b></u></u>	<u><u><b>\$ 470,009</b></u></u>	<u><u><b>\$ 417,793</b></u></u>

\* See page 4 for the complete presentation of the Statement of Activities for the year ended June 30, 2006.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

*Statements of Activities*  
(in thousands)

Years Ended June 30, 2006

	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Operating revenues</b>				
Tuition and fees	\$ 8,963	\$ -	\$ -	\$ 8,963
Room and board	3,010	-	-	3,010
Less: Student aid	(9,669)	-	-	(9,669)
Student revenues, net	<u>2,304</u>	<u>-</u>	<u>-</u>	<u>2,304</u>
Contributions	130	121	-	251
Government grants and other contracts	2,302	-	-	2,302
Miscellaneous	650	234	-	884
Net assets released for Olin Endowment spending	24,773	-	-	24,773
Net assets released for other purpose restrictions	304	(304)	-	-
Net assets released for depreciation	<u>4,747</u>	<u>-</u>	<u>-</u>	<u>4,747</u>
<b>Total operating revenues</b>	<u>35,210</u>	<u>51</u>	<u>-</u>	<u>35,261</u>
<b>Operating expenses</b>				
Instruction	11,175	-	-	11,175
Research	1,122	-	-	1,122
Academic support	3,307	-	-	3,307
Student services	10,612	-	-	10,612
Sponsored programs	2,382	-	-	2,382
Development and fundraising	371	-	-	371
Institutional support	<u>6,537</u>	<u>-</u>	<u>-</u>	<u>6,537</u>
<b>Total operating expenses</b>	<u>35,506</u>	<u>-</u>	<u>-</u>	<u>35,506</u>
<b>Change in net assets from operating activities</b>	<u>(296)</u>	<u>51</u>	<u>-</u>	<u>(245)</u>
<b>Nonoperating activities</b>				
Contributions	-	-	36	36
Interest and dividend income	124	6,659	-	6,783
Net realized and unrealized gain on long-term investments	-	28,996	-	28,996
Net assets released for Olin Endowment spending	-	(24,773)	-	(24,773)
Net assets released for depreciation	-	(4,747)	-	(4,747)
Change in fair value of interest rate agreement	(1,857)	-	-	(1,857)
Net assets released for change in fair value of interest rate agreement	<u>1,857</u>	<u>(1,857)</u>	<u>-</u>	<u>-</u>
<b>Change in net assets from nonoperating activities</b>	<u>124</u>	<u>4,278</u>	<u>36</u>	<u>4,438</u>
<b>Change in net assets</b>	(172)	4,329	36	4,193
<b>Net assets, beginning of year</b>	<u>15,023</u>	<u>396,750</u>	<u>1,827</u>	<u>413,600</u>
<b>Net assets, end of year</b>	<u>\$ 14,851</u>	<u>\$ 401,079</u>	<u>\$ 1,863</u>	<u>\$ 417,793</u>

**FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.**

*Statements of Cash Flows*

(in thousands)

	<i>Years Ended June 30,</i>	
	<i>2007</i>	<i>2006</i>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 52,216	\$ 4,193
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,896	5,480
Net realized and unrealized gain on long-term investments	(64,668)	(28,996)
Contributions designated for long-term investment	(54)	(36)
Change in value of interest rate agreement	(7,349)	1,857
Change in operating assets and liabilities		
Accounts receivable, prepaid expenses and other assets	(232)	559
Accounts payable and accrued expenses, deferred revenues	210	50
Contributions receivable	20	42
<b>Net cash used in operating activities</b>	<b>(13,961)</b>	<b>(16,851)</b>
<b>Cash flows from investing activities</b>		
Purchases of investments	(98,527)	(837,414)
Sales and maturities of investments	112,647	853,028
Acquisition and construction of property and equipment	(1,069)	(1,455)
Proceeds from sale of property and equipment	85	5
Use of trusteed funds held for construction	914	1,727
Change in employee loans receivable	10	(7)
<b>Net cash provided by investing activities</b>	<b>14,060</b>	<b>15,884</b>
<b>Cash flows from financing activities</b>		
Contributions designated for long-term investment	54	36
<b>Net cash provided by financing activities</b>	<b>54</b>	<b>36</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>153</b>	<b>(931)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,110</b>	<b>2,041</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,263</b>	<b>\$ 1,110</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 7,593	\$ 7,449

# FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

## *Notes to Financial Statements*

### *Note 1 - Nature of Operations*

Franklin W. Olin College of Engineering, Inc. (the College), was founded in 1997 by the F. W. Olin Foundation, Inc. (the Foundation), and graduated its first class in May 2006. The College is an independent nonsectarian college offering undergraduate engineering degrees. There are approximately 300 students drawn from across the United States. 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 became accredited by the New England Association of Schools and Colleges on December 6, 2006. This has allowed the College to participate in the Title IV student financial aid programs of the Higher Education Act of 1965 and also to grant I-20 documentation so that foreign nationals may apply for a visa to study at the College.

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

### *Note 2 - Summary of Significant Accounting Policies*

#### *Basis of Presentation*

The accompanying financial statements are presented on the accrual basis of accounting and have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Unrestricted net assets* - Net assets that the College may use at its discretion.

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

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

#### *Classifications*

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



# FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

## *Notes to Financial Statements*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Contributions*

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

#### *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash in banks and short-term investments with a maturity date from purchase of three months or less. Cash and cash equivalents held by investment managers are considered part of investments.

#### *Investments*

Investments in marketable securities and debt securities are valued at quoted prices from major securities exchanges. Certain non-marketable securities, such as private equity, venture capital, and hedge funds include investments for which quoted market prices are not readily available. The fair values of these investments are based on the most recent estimates by the investment managers or partners. Estimates of fair value may differ from the values that would have been used had a ready market for the investments existed. The College believes that the carrying amount of its non-marketable securities is a reasonable estimate of fair value as of June 30, 2007 and 2006.

Dividends, interest, and net gain (loss) on investments are reported as follows:

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

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

#### *Endowment Spending Policy*

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. Accrued draws in excess of 6% are permitted without Board approval.

# FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

## *Notes to Financial Statements*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Property and Equipment*

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

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

	<u>Years</u>
Buildings and improvements	15 to 40
Equipment	3 to 20

#### *Operating and Nonoperating Activities*

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

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

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

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted 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.

#### *Reclassifications*

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

### *Note 3 - Employee Loans Receivable*

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

# FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

## *Notes to Financial Statements*

### *Note 4 - Contributions Receivable, Net*

Contributions receivable consisted of the following at June 30:

	<i>2007</i>	<i>2006</i>
Amounts due in:		
Less than one year	\$ 5,035	\$ 5,090
One to five years	76	-
<b>Total due</b>	<b>5,111</b>	<b>5,090</b>
Less:		
Unamortized discount	11	-
Allowance for doubtful accounts	30	-
<b>Contributions receivable, net</b>	<b>\$ <u>5,070</u></b>	<b>\$ <u>5,090</u></b>

Discount rates used to present value the estimated cash flows from contributions was 5.03% for the year ended June 30, 2007.

The Foundation has committed to transfer the remaining balance of its available assets to the College upon final settlement of the Foundation. In return, the College committed to add these funds to the Olin Endowment, and also agreed to certain other covenants including the payment of any Foundation debt or expenses that may arise after the assets have been transferred to the College. Included in the Contribution receivable is the \$5,000 which the Foundation formally committed as a contribution. The assets of the Foundation at June 30, 2007 are approximately \$11,000. The College will record the remaining contribution when it is verifiably committed and the date of receipt is reasonably assured.

### *Note 5 - Long-Term Investments*

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

	<i>2007</i>	<i>2006</i>
Equities and equity funds:		
Domestic	\$ 143,170	\$ 135,892
International	78,213	56,594
Marketable alternatives	146,681	158,107
Nonmarketable alternatives	6,699	523
Fixed-income securities funds	87,969	75,201
Real Estate	17,142	-
Short-term investments	2,788	5,797
<b>Long-term investments, at fair value</b>	<b>\$ <u>482,662</u></b>	<b>\$ <u>432,114</u></b>

**FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.**

*Notes to Financial Statements*

*Note 5 - Long-Term Investments (Continued)*

Long-term investment activity for 2007 and 2006 was as follows:

	<i>2007</i>	<i>2006</i>
Investments, beginning of year	\$ 432,114	\$ 418,732
Contributions	157	86
Net realized and unrealized investment gains	64,668	28,996
Dividends and interest available	9,078	6,659
Other activity	(280)	641
Cash-basis endowment draw	<u>(23,075)</u>	<u>(23,000)</u>
Excess of earnings over draw	<u>50,391</u>	<u>13,296</u>
<b>Investments, end of year</b>	<b><u>\$ 482,662</u></b>	<b><u>\$ 432,114</u></b>

The College is obligated under certain limited partnership agreements to advance additional funding periodically up to specified levels. At June 30, 2007, the College had capital commitments of approximately \$50,338, which will be funded from existing investments. Investment management expenses were \$9,382 and \$4,165 for the years ended June 30, 2007 and 2006, respectively.

Of the above balance, \$1,858 is permanently restricted for specific purpose funds and \$85 is designated for facilities renewal and replacement. Management considers the remaining balance of \$480,719 to be the Olin Endowment, which can be used only in accordance with the terms of the Grant Agreement, regardless of the accounting classification. See Note 1 for discussion of the terms of the Grant Agreement.

*Note 6 - Plant and Equipment, net*

Property and equipment consisted of the following as of June 30:

	<i>2007</i>	<i>2006</i>
Land	\$ 14,605	\$ 14,605
Buildings and improvements	129,412	128,496
Equipment	7,947	7,514
Construction in progress	<u>320</u>	<u>685</u>
	152,284	151,300
Less accumulated depreciation	<u>(22,626)</u>	<u>(16,959)</u>
<b>Plant and equipment, net</b>	<b><u>\$ 129,658</u></b>	<b><u>\$ 134,341</u></b>

# FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

## *Notes to Financial Statements*

### *Note 7 - Pension Plans*

#### *Defined Contribution Plan*

The College has established a contributory retirement plan (the Plan) for eligible personnel. The Plan is mandatory for all employees starting on the first day of the month following four months of employment. The Plan is designed in accordance with the provisions of Section 403(b) of the Code and the College's expenses under the Plan were \$771 and \$728 for the years ended June 30, 2007 and 2006, respectively.

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

#### *Deferred Compensation Plan*

The College designed 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 \$304 and \$219 in 2007 and 2006, respectively. The assets and liabilities are recorded in prepaid expenses and accounts payable and accrued expenses, respectively.

### *Note 8 - Collaboration and Shared Services Agreement*

The College has a Collaboration Agreement and a Shared Service Agreement with Babson College that defines their cooperation on academic programming and purchasing of services. The College pays Babson College a fee for certain administrative and programmatic services, and other associated expenses. Fees incurred under these agreements were \$933 and \$2,761, of which approximately \$76 and \$359 were included in accounts payable and accrued expenses as of June 30, 2007 and 2006 respectively. These costs have been included in Institutional support, Instruction and Student services in the accompanying Statements of Activities. The College continues to become less dependent on Babson for administrative and support services, as evidenced by the decrease in fees resulting from the College developing its own facilities management function. Management believes that alternatives for other services purchased from Babson are available in the community.

### *Note 9 - Bonds Payable*

Debt consisted of the following as of June 30:

	<i>2007</i>	<i>2006</i>
Taxable Revenue Bonds Series A-1 and A-2 Auction Variable Rate Securities, maturing serially from 2030 to 2033, at an average rate of 5.26 % in fiscal year 2007	\$ 93,200	\$ 93,200
Tax-Exempt Revenue Bonds Series B, at a fixed rate of 5.25%, maturing serially from 2028 to 2033	65,910	65,910
	159,110	159,110
Less unamortized bond discount	(1,176)	(1,225)
	\$ 157,934	\$ 157,885

# FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

## Notes to Financial Statements

### Note 9 - Bonds Payable (Continued)

The College issued multiple series of bonds in August 2003. A portion of the proceeds from these bonds was used to reimburse the College for construction of Phase I of the main campus, and the remaining balance was used for construction of a second residence hall. The bonds are secured by approximately 42.6 acres of the College's land, along with the associated buildings, facilities and improvements. The terms of the Bonds include debt covenants such as maintaining certain values of net assets available for debt service, with which the College is in compliance at June 30, 2007 and 2006.

Repayments of Series A-1 are as follows: \$10,000 in 2030, \$10,000 in 2031, \$10,000 in 2032 and \$10,000 in 2033. The lump-sum repayment of the \$53,200 Series A-2 bonds is due in 2033.

Sinking fund payments on the Series B bonds are as follows: \$1,025 in 2028, \$10,315 in 2029, \$11,545 in 2030, \$12,870 in 2031, \$14,305 in 2032, and \$15,850 in 2033.

Interest expense was \$7,593 and \$7,364 for the years ended June 30, 2007 and 2006, respectively.

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

In June of 2006, the College entered into a basis swap to mitigate the interest rate risk associated with the Series A-1 and A-2 variable rate debt. The College pays the product of USD-BMA Municipal Swap Index times 1.45 on principal amounts of \$40,000 and \$53,190. The counterparty is obligated to pay the College 3-month USD-LIBOR plus 0.53% and 0.55% on the same principal amounts. In December 2006, the College entered into a variable to fixed interest rate swap to eliminate the interest rate risk associated with the Series A-1 variable rate. The College pays an annual fixed interest rate of 5.12% and the counterparty is obligated to pay the College 3-month USD-LIBOR on the principal amount of \$40,000. The fair value of the swap agreements is reflected on the Statements of Financial Position as an asset of \$5,492. The gain associated with the swap agreements is reflected as a nonoperating item in the Statements of Activities.

### Note 10 - Restricted Net Assets and Releases

#### Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30:

	2007	2006
Olin Endowment contribution receivable from the Foundation	\$ 5,000	\$ 5,000
Temporarily Restricted Portion of the Olin Endowment Purpose restrictions	356,865	301,768
Investment in property and equipment (to be released over time)	952	853
	<u>88,714</u>	<u>93,458</u>
	<u>\$ 451,531</u>	<u>\$ 401,079</u>

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

*Notes to Financial Statements*

*Note 10 - Restricted Net Assets and Releases (Continued)*

*Permanently Restricted Net Assets*

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

	<i>2007</i>	<i>2006</i>
Bioengineering chair	\$ 1,633	\$ 1,633
Wynn Library Fund	175	150
Permanently Restricted Portion of the Olin Endowment	66	30
Samuel and Rae Eckman Endowment	50	50
	<u>1,924</u>	<u>1,863</u>
	<u>\$ 1,924</u>	<u>\$ 1,863</u>

*Net Assets Released from Restrictions*

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

	<i>2007</i>	<i>2006</i>
Depreciation of gifted capitalized assets	\$ 4,744	\$ 4,747
Olin Endowment spending	20,493	24,773
Interest Rate Agreements	(1,857)	1,857
Scholarship	49	95
Other	363	209
	<u>23,792</u>	<u>31,681</u>
	<u>\$ 23,792</u>	<u>\$ 31,681</u>

Included in Olin Endowment release for the year ended June 30, 2007 is \$2,582 for the reversal of fiscal year 2006 accrued expenses for which the cash was not transferred to the operating account. The Olin Endowment cash draw amounted to \$23,075 and \$23,000 for the years ended June 30, 2007 and 2006, respectively.

See footnotes 1 and 5 for additional discussion of the Olin Endowment.

*Supplemental Information*



FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
Student Financial Assistance Cluster:			
U.S. Department of Education:			
Federal Family Education Loans	84.032		\$ 34,007
Federal Pell Grant Program	84.063		32,625
SMART Grant	84.376		8,000
Federal Supplemental Educational Opportunity Grants	84.007		10,425
Total Student Financial Assistance Cluster			<u>85,057</u>
Research and Development Cluster:			
National Science Foundation:			
Education and Human Resources-A Motivational Course in Cryptology	47.076		2,640
Passed through the University of Washington: Education and Human Resources-Center for Advancement of Engineering Education Sub	47.076	113873	30,093
Passed through Stanford University: Computer and Information Science and Engineering-Accelerating Globally Disturbed Team Innovation	47.070	17134620-27551-A	22,127
Education and Human Resources-GSE/RES: Does Project-based Learning Matter to Undergraduate Women in Engineering	47.076		43,144
Passed through the University of Richmond: Mathematical and Physical Sciences-EMSW21-MCTP: Long-term Undergraduate Research Experience	47.049	27521	15,817
Total Research and Development Cluster			<u>113,821</u>
National Science Foundation:			
Passed through Babson College: Engineering Grants-SEEE	47.041	1-147-2477-0	90,373
Engineering Grants-RUI: Electrohydrodynamic Flow in Microchannels	47.041		24,765
Engineering Grants-MRI: Acquisition of a Confocal Microscope	47.041		472,757
Mathematical and Physical Sciences-MRI: Acquisition of an Infrared Spectrometer	47.049		167,443
Total National Science Foundation			<u>869,159</u>
National Aeronautics and Space Administration:			
Possible Future Connections Between Olin and NASA	43.AAA		14,772
Miscellaneous Support for a Summer Engineering Internship Program	43.AAA		2,018
MIT Mass Space Grant Summer Support	43.CCC		6,461
A Partnership Between NASA and Franklin W. Olin College of Engineering	43.AAA		18,967
Mass Space Consortium	43.CCC		12,775
Total National Aeronautics and Space Administration			<u>54,993</u>
National Security Agency, Department of Defense:			
Mathematical Sciences Grants Program-Communicating Mathematics	12.901		<u>462</u>
Defense Advanced Research Projects Agency:			
Passed through MIT: DARPA Urban Grand Challenge	12.UNKNOWN	5710002145	<u>50,000</u>
<b>Total expenditures of federal awards</b>			<b>\$ <u><u>1,059,671</u></u></b>

# FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

## *Notes to Schedule of Expenditures of Federal Awards*

### *Note 1 – Basis of Presentation*

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Franklin W. Olin College of Engineering, Inc. (the College) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

The College includes loans granted under the Federal Family Education Loan Program and as expenditures of Federal awards.

*Reporting Under Government Auditing Standards*

*Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance With Government Auditing Standards*

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

We have audited the financial statements of Franklin W. Olin College of Engineering, Inc. (the College) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of planning their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

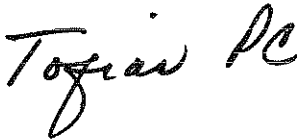
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, federal awarding agencies or their representatives and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Tofias PC". The signature is written in a cursive, flowing style.

October 22, 2007  
Cambridge, Massachusetts

*Reporting Under OMB Circular A-133*

*Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133*

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

***Compliance***

We have audited the compliance of Franklin W. Olin College of Engineering, Inc. (the College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

***Internal Control over Compliance***

The management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, federal awarding agencies or their representatives and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Tofiar PC*

October 22, 2007  
Cambridge, Massachusetts



**FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.**

*Schedule of Findings and Responses*

*Year Ended June 30, 2007*

**Section 1**

**Summary of Auditor's Results**

**Financial Statements**

- |   |             |
|---|-------------|
| 1. Type of auditor's report issued:   | Unqualified |
| 2. Internal control over financial reporting:   |             |
| a. Material weaknesses identified?  | None        |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | None        |
| c. Noncompliance material to the financial statements noted?                              | None        |

**Federal Awards**

- |   |             |
|---|-------------|
| 1. Internal control over major programs:  |             |
| a. Material weaknesses identified?  | No          |
| b. Significant deficiencies identified that are not considered to be material weaknesses?                                 | None        |
| 2. Type of auditor's report issued on compliance for major programs:  | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | No          |

4. Identification of major programs:

CFDA Number

47.041  
47.049

Name of Federal Program or Cluster

Engineering Grants  
Mathematical and Physical Sciences

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 6. Auditee qualified as a low-risk auditee?                                 | No        |

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

*Schedule of Findings and Responses*

*Year Ended June 30, 2007*

Section 2

Financial Statement Findings

None.

Section 3

Federal Award Findings and Responses

None.

Section 4

Summary Schedule of Prior Year Findings

None.