



Financial Statements

Franklin W. Olin College of Engineering, Inc.

June 30, 2020 and 2019



FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Financial Statements

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Franklin W. Olin College of Engineering, Inc. (the "College"), which comprise the statements of financial position as of June 30, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffmann McCann P.C.

October 17, 2020
Boston, Massachusetts

FRANKLIN W. OLIN COLLEGE OF ENGINEERING

Statements of Financial Position (in thousands)

	<i>June 30,</i>	
	<i>2020</i>	<i>2019</i>
Assets		
Cash and cash equivalents	\$ 6,746	\$ 9,018
Accounts receivable, net	1,460	851
Contributions receivable, net	938	488
Prepaid expenses and other assets	3,183	2,093
Long-term investments	361,142	375,414
Long-term investments, facilities renewal and replacement fund	8,595	8,542
Plant and equipment, net	75,191	77,994
Interest rate swap agreements	3,938	4,112
Total assets	\$ 461,193	\$ 478,512
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 5,240	\$ 4,663
Deferred revenue and deposits	2,949	4,053
Bonds payable, net	158,058	158,201
Interest rate swap agreements	18,910	13,297
Total liabilities	185,157	180,214
Net assets:		
Without donor restrictions	46,130	48,171
With donor restrictions	229,906	250,127
Total net assets	276,036	298,298
Total liabilities and net assets	\$ 461,193	\$ 478,512

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Activities
(in thousands)

Year Ended June 30, 2020
(with comparative totals for 2019)

	2020		Total	2019 Total
	Without Donor Restrictions	With Donor Restrictions		
Operating revenues				
Student revenues, net of student aid of \$12,405 and \$11,749, respectively	\$ 9,707	\$ -	\$ 9,707	\$ 10,530
Contributions	920	820	1,740	1,709
Government grants and other contracts	2,618	-	2,618	1,948
Other	1,563	-	1,563	1,783
Net assets released for:				
Olin endowment spending	22,700	-	22,700	20,300
Other purpose restrictions	1,245	(1,245)	-	-
	38,753	(425)	38,328	36,270
Operating expenses				
Instruction	11,554	-	11,554	11,854
Research	822	-	822	849
Academic support	3,504	-	3,504	3,246
Student services	11,462	-	11,462	11,393
Sponsored programs	2,675	-	2,675	2,816
Development and fundraising	1,554	-	1,554	1,392
Institutional support	9,416	-	9,416	8,521
	40,987	-	40,987	40,071
	(2,234)	(425)	(2,659)	(3,801)
Nonoperating activities				
Contributions	-	735	735	165
Investment return, net of expenses	193	7,956	8,149	20,362
Change in value of interest rate swap agreements	(5,787)	-	(5,787)	(1,532)
Loss on modification of debt	-	-	-	(203)
Net assets released for:				
Olin endowment spending	-	(22,700)	(22,700)	(20,300)
Change in value of interest rate swap agreements	5,787	(5,787)	-	-
	193	(19,796)	(19,603)	(1,508)
Change in net assets	(2,041)	(20,221)	(22,262)	(5,309)
Net assets, beginning of year	48,171	250,127	298,298	303,607
Net assets, end of year	\$ 46,130	\$ 229,906	\$ 276,036	\$ 298,298

See accompanying notes to the financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statement of Activities
(in thousands)

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
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	1,783	-	1,783
Net assets released for:			
Olin endowment spending	20,300	-	20,300
Other purpose restrictions	1,299	(1,299)	-
	36,830	(560)	36,270
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
	40,071	-	40,071
	(3,241)	(560)	(3,801)
Change in net assets from operating activities			
	(3,241)	(560)	(3,801)
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)	-
	818	(2,326)	(1,508)
	(2,423)	(2,886)	(5,309)
Change in net assets			
	(2,423)	(2,886)	(5,309)
Net assets, beginning of year	50,594	253,013	303,607
Net assets, end of year	\$ 48,171	\$ 250,127	\$ 298,298

See accompanying notes to the financial statements.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Statements of Cash Flows
(in thousands)

	Years Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (22,262)	\$ (5,309)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	4,234	4,160
Net realized and unrealized gain on long-term investments	(6,156)	(17,111)
Contributions designated for long-term investment	(665)	(163)
Write-off of construction in process	198	-
Loss on modification of debt	-	203
Change in value of interest rate swap agreements	5,787	1,532
Change in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other assets	(1,699)	(89)
Contributions receivable	(450)	298
Accounts payable and accrued expenses, deferred revenues and deposits	(1,128)	391
	<u>(22,141)</u>	<u>(16,088)</u>
Net cash used in operating activities	(22,141)	(16,088)
Cash flows from investing activities:		
Purchases of investments	(71,946)	(54,353)
Sales and maturities of investments	92,323	71,769
Acquisition and construction of property and equipment	(1,173)	(860)
	<u>19,204</u>	<u>16,556</u>
Net cash provided by investing activities	19,204	16,556
Cash flows from financing activities:		
Debt issuance costs	-	(81)
Contributions designated for long-term investment	665	163
	<u>665</u>	<u>82</u>
Net cash provided by financing activities	665	82
Net increase (decrease) in cash and cash equivalents	(2,272)	550
Cash and cash equivalents, beginning of year	<u>9,018</u>	<u>8,468</u>
Cash and cash equivalents, end of year	\$ <u>6,746</u>	\$ <u>9,018</u>
Supplemental disclosure of cash flows information:		
Cash paid for interest	<u>\$ 5,384</u>	<u>\$ 5,365</u>
Plant and equipment additions remaining in accounts payable	<u>\$ 601</u>	<u>\$ -</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, 2020 is restricted cash of approximately \$3,068 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 and are generally recognized on a current basis given the nature and duration of the underlying services being provided.

Plant and Equipment

Plant 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:

	Years
Buildings	40
Building and land improvements	20
Equipment, IT network and infrastructure	10
Furniture and fixtures	4-7
Computers, software, and vehicles	4

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.

Nonoperating activities include returns associated with long-term investments, change in value of 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 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 2.34% 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.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

As of June 30, 2020, the College had conditional grants of approximately \$4,000 that are contingent upon the College meeting grantor-imposed barriers which include carrying out certain activities and incurring qualified expenditures stipulated by the grants.

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.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

**Notes to Financial Statements
(in thousands)**

Note 2 - Summary of Significant Accounting Policies (Continued)

Subsequent Events

The College has evaluated subsequent events through October 17, 2020, the date the financial statements were issued.

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:

	2020	2019
Financial Assets:		
Cash and cash equivalents	\$ 3,678	\$ 4,917
Accounts and contributions receivable	1,651	894
Amounts appropriated for spending in the following year:		
Facilities renewal and replacement fund (FRRF)	601	70
Olin endowment	26,172	21,400
Total financial assets available within one year	<u>32,102</u>	<u>27,281</u>
Liquidity Resources:		
Line of credit, maximum available	<u>10,000</u>	<u>10,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 42,102</u>	<u>\$ 37,281</u>

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 \$8,595 and \$8,542 as of June 30, 2020 and 2019, 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 \$355,638 and \$370,501 as of June 30, 2020 and 2019, respectively. As of June 30, 2020, approximately 34% 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 \$10,000 committed line of credit as of June 30, 2020 and 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:

	2020		2019
Amounts due in:			
Less than one year	\$ 583	\$	298
One to five years	409		230
	<hr/>		<hr/>
Total due	992		528
Less:			
Unamortized discount	16		14
Allowance for doubtful accounts	38		26
	<hr/>		<hr/>
Contributions receivable, net	\$ 938	\$	488
	<hr/> <hr/>		<hr/> <hr/>

Note 5 - Investments

The following table summarizes the valuation of the College's investments at June 30, 2020:

	Total	Investments Measured at NAV	Level 1
	<hr/>	<hr/>	<hr/>
Long-term investments, including facilities renewal and replacement fund:			
Cash and cash equivalents	\$ 13,053	\$ -	\$ 13,053
Equity funds	161,509	91,206	70,303
Fixed income funds	71,597	27,478	44,119
Real asset funds - natural resources and real estate	3,098	3,098	-
Hedge funds - equity hedged	33,692	33,692	-
Hedge funds - global macro	34,602	34,602	-
Hedge funds - multi-strategy	53	53	-
Hedge funds - fixed income/ credit opportunities	325	325	-
Private equity funds	43,430	43,430	-
Venture capital funds	8,378	8,378	-
	<hr/>	<hr/>	<hr/>
Total	\$ 369,737	\$ 242,262	\$ 127,475
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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, 2019:

	<u>Total</u>	<u>Investments Measured at NAV</u>	<u>Level 1</u>
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

Unfunded commitments under various investment vehicles amounted to \$34,262 at June 30, 2020. 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:

	2020		2019
Daily	\$ 127,476	\$	137,726
Monthly	186,978		191,474
Illiquid	<u>55,283</u>		<u>54,756</u>
	<u>\$ 369,737</u>	\$	<u>383,956</u>

Note 6 - Plant and Equipment, Net

Plant and equipment consisted of the following at June 30:

	2020		2019
Land and improvements	\$ 14,717	\$	14,717
Buildings and improvements	132,685		131,307
Equipment	11,252		10,935
Construction in process	<u>12</u>		<u>198</u>
	158,666		157,157
Less accumulated depreciation	<u>(83,475)</u>		<u>(79,163)</u>
Plant and equipment, net	<u>\$ 75,191</u>	\$	<u>77,994</u>

Depreciation expense amounted to \$4,377 and \$4,300 for the years ended June 30, 2020 and 2019, respectively. The College wrote off \$198 of construction in process costs previously incurred for the year ended June 30, 2020 upon the College's decision not to pursue the construction project.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements (in thousands)

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 \$1,017 and \$954 for the years ended June 30, 2020 and 2019, respectively. The Plan also allows for voluntary employee contributions.

Deferred Compensation Plan

The College also maintains a plan in accordance with Section 457(b) of the Code. Under the terms of this plan, no contributions are made by the College, but it is fully funded by voluntary pre-tax contributions by management or highly-compensated employees. The assets and liabilities of this plan are recorded in the statements of financial position and total \$1,405 and \$1,255 at June 30, 2020 and 2019, respectively. The assets and liabilities are recorded in prepaid expenses and other assets and accounts payable and accrued expenses, respectively.

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements
(in thousands)

Note 8 - Bonds Payable

Bonds payable consisted of the following as of June 30:

	2020	2019
Privately held Taxable Variable Rate Demand Revenue Bonds Series C-1, maturing serially from 2034 to 2043, at an average rate of 2.40% in 2020 and 3.17% in 2019	\$ 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 1.68% in 2020 and 2.22% in 2019	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 1.68% in 2020 and 2.22% in 2019	23,000	23,000
Privately held Tax-Exempt Revenue Bonds Series 2013 D, at a fixed rate of 2.19%, maturing serially from 2034 to 2043	38,255	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	<u>22,925</u>	<u>22,925</u>
	154,930	154,930
Add: Unamortized bond premium/discount, net	4,342	4,556
Less: Bond issuance costs	<u>(1,214)</u>	<u>(1,285)</u>
Bonds payable, net	<u>\$ 158,058</u>	<u>\$ 158,201</u>

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.

Interest expense was \$5,143 and \$5,370 for the years ended June 30, 2020 and 2019, 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 \$585 and \$514 at June 30, 2020 and 2019, respectively. Net accretion from bond issuance costs and bond premium/discount amounted to \$143 and \$144 for the years ended June 30, 2020 and 2019, respectively.

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 a committed line of credit agreement with a financial institution. The borrowing limit was \$10,000 in 2020 and 2019. There were no outstanding borrowings at June 30, 2020 or 2019. The agreement expires on June 25, 2021 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>2020 Fair Value Asset/(Liability)</i>	<i>2019 Fair Value Asset/(Liability)</i>
\$ 40,000	July 1, 2033	USD-3M LIBOR	5.1227%	\$ (18,910)	\$ (13,297)
40,000	July 1, 2033	USD-3M LIBOR + 0.53%	SIFMA x 1.45	1,589	1,718
<u>53,190</u>	July 1, 2033	USD-3M LIBOR + 0.55%	SIFMA x 1.45	<u>2,349</u>	<u>2,394</u>
\$ <u>133,190</u>				\$ <u>(14,972)</u>	\$ <u>(9,185)</u>

USD 3M LIBOR and SIFMA were 0.30% and 0.13%, respectively, at June 30, 2020. 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. Prior to June 30, 2020, the mark to market liability threshold exceeded \$20,000, resulting in the posting of collateral by the College. As of June 30, 2020, the net collateral posted of \$440 is recorded in prepaid expenses and other assets, and has been received by the College subsequent to year-end as the mark to market liability has since declined below \$20,000.

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, 2020 and 2019, 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. 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. Endowment spending beyond this 6% limit requires affirmative Board appropriation. The cash basis endowment spending rate was 6.26% and 5.77% for the years ended June 30, 2020 and 2019, respectively. The Board approved the 6.26% spending rate.

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, 2020 are as follows:	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Operating, undesignated	\$ 37,535	\$ -	\$ 37,535
Board-designated - facilities renewal and replacement fund	8,595	-	8,595
Portion of the Olin endowment restricted for purpose	-	221,546	221,546
Other donor-restricted	-	1,887	1,887
Accumulated income/gains on endowment funds	-	1,182	1,182
Endowment funds:			
Faculty chairs	-	1,806	1,806
Scholarships	-	2,586	2,586
Library support	-	225	225
Portion of the Olin endowment restricted in perpetuity	-	174	174
Other	-	500	500
Net assets with donor restrictions restricted in perpetuity	<u>-</u>	<u>5,291</u>	<u>5,291</u>
Total net assets	<u>\$ 46,130</u>	<u>\$ 229,906</u>	<u>\$ 276,036</u>

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:	Without Donor Restrictions	With Donor Restrictions	Total
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
Net assets with donor restrictions restricted in perpetuity	<u>-</u>	<u>4,185</u>	<u>4,185</u>
Total net assets	<u>\$ 48,171</u>	<u>\$ 250,127</u>	<u>\$ 298,298</u>

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)

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, 2018	\$ 7,671	\$ 376,388	\$ 384,059
Gifts and additions	-	150	150
Investment return, net of expenses	430	19,943	20,373
Expenditures for operations	-	(20,467)	(20,467)
Reclassification to facilities renewal and replacement fund from Olin Endowment	600	(600)	-
Transfer from facilities renewal and replacement fund to cash and cash equivalents	<u>(159)</u>	<u>-</u>	<u>(159)</u>
Endowment assets and those functioning as endowment assets at June 30, 2019	\$ 8,542	\$ 375,414	\$ 383,956
Gifts and additions	-	666	666
Investment return, net of expenses	202	7,938	8,140
Expenditures for operations	-	(22,876)	(22,876)
Transfers:			
To facilities renewal and replacement fund from cash and cash equivalents	500	-	500
From facilities renewal and replacement fund to cash and cash equivalents	<u>(649)</u>	<u>-</u>	<u>(649)</u>
Total transfers	<u>(149)</u>	<u>-</u>	<u>(149)</u>
Endowment assets and those functioning as endowment assets at June 30, 2020	\$ <u>8,595</u>	\$ <u>361,142</u>	\$ <u>369,737</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, 2020 or 2019.

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 presents 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, 2020, 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	\$ 5,583	\$ 1,505	\$ 1,730	\$ 1,605	\$ 831	\$ 4,358	\$ -	\$ 15,612
Benefits	1,426	372	479	382	224	1,241	-	4,124
Program, Supplies & Other	385	792	132	116	57	1,061	(38)	2,505
Professional Services	33	100	379	333	114	1,221	236	2,416
Outsourced Services	-	-	1,445	-	1	437	2,602	4,485
Facilities Services and Insurance	16	7	-	1	-	276	1,199	1,499
Training, Travel and Meals	103	85	233	83	101	202	2	809
Debt Service	-	-	-	-	-	-	5,303	5,303
Depreciation and Amortization	-	-	-	-	-	-	4,234	4,234
Total expenses before plant allocation	7,546	2,861	4,398	2,520	1,328	8,796	13,538	40,987
Plant Allocation	4,008	1,465	7,064	155	226	620	(13,538)	-
Total expenses	\$ 11,554	\$ 4,326	\$ 11,462	\$ 2,675	\$ 1,554	\$ 9,416	\$ -	\$ 40,987

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

FRANKLIN W. OLIN COLLEGE OF ENGINEERING, INC.

Notes to Financial Statements (in thousands)

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, 2020.

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.

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. As a result, the College closed its residential campus to most students and implemented remote learning for all classes through the end of the academic year. The College provided pro-rata refunds of room and board charges to students impacted by the campus closure. These refunds amounted to approximately \$1,320 and resulted in a reduction of room and board revenue for the year ended June 30, 2020.

For the upcoming year ended June 30, 2021, the College expects some decline in enrollment and demand for campus housing, as well as incremental costs to ready the campus for safe occupancy, and investments in testing. The full extent of the impact of COVID-19 on the College will depend on future developments, including the spread and duration of the pandemic.

The College received \$500 of funding from the Higher Education emergency Relief Fund (HEERF) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), used to provide emergency financial aid to students and support institutional expenditures related to the pandemic during the year ended June 30, 2020.