

# OBERLIN COLLEGE REPORT OF THE VICE PRESIDENT FOR FINANCE & ADMINISTRATION

YEAR ENDED JUNE 30, 2021



OBERLIN

COLLEGE & CONSERVATORY



We are pleased to present Oberlin College's Annual Financial Report for the year ended June 30, 2021. This report includes our independent auditor's report, audited consolidated financial statements and related footnotes to the statements.

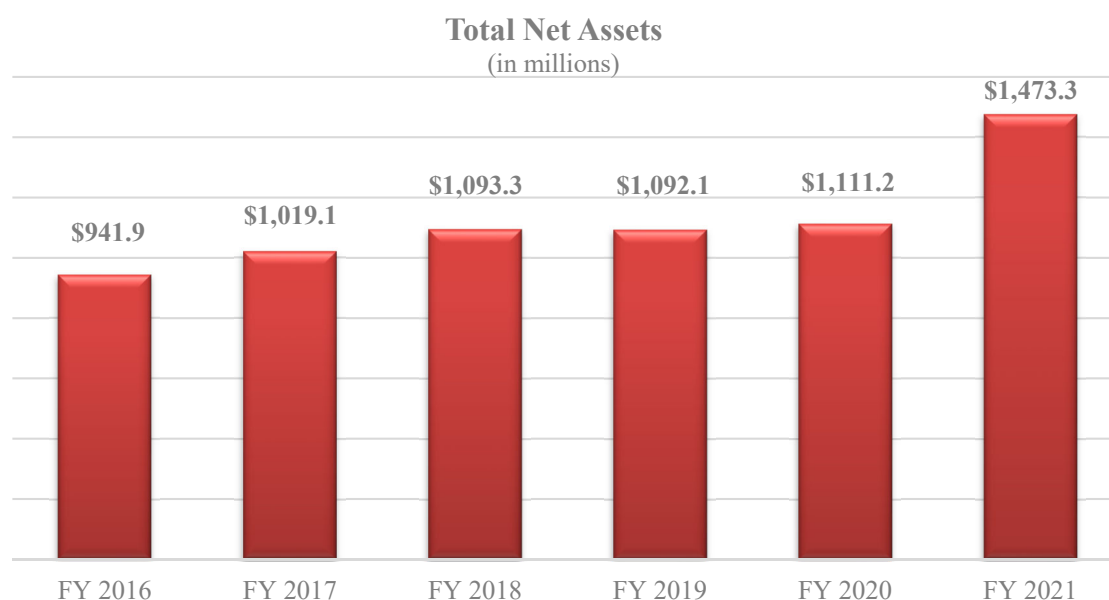
To provide the users of these financial statements with a better understanding of the College's financial position and operations, we include an overview of the institution's financial condition and operating results for the year. We also look ahead to 2022 and note items of significance that have occurred in the first part of the new fiscal year.

These statements include the consolidation of College Properties of Northern Ohio which includes the Gateway Complex Project. A discussion of this project in greater detail can be found in the related footnotes to our audited consolidated financial statements.

### **FINANCIAL CONDITION**

#### **Total Assets and Total Net Assets**

Oberlin's total assets at June 30, 2021 were \$1,803.6 million, an increase of \$366.1 million, or 25.5%, from the previous fiscal year's \$1,437.5 million. Total liabilities as of June 30, 2021 were \$330.2 million, an increase of \$3.9 million from the prior year's \$326.3 million. Total net assets for the College were \$1,473.3 million, compared to \$1,111.2 million as of June 30, 2020, an increase of 32.6%. The following chart reflects the total net assets of Oberlin College at June 30, 2021 and for the previous five fiscal years.



The majority of the College's net assets are within its endowed funds and plant funds. The increases and decreases in the College's total assets, as well as total net assets, are primarily the result of investment returns and the spending of cumulative earnings of the College's endowed funds.

## **Endowed Funds**

Total endowed funds as of June 30, 2021 were \$1,272.4 million, as compared to \$936.6 million the previous year, an increase of \$335.8 million. In comparison, total endowed funds increased by \$12.0 million in the fiscal year ended June 30, 2020, from \$924.6 million at June 30, 2019.

Like most private liberal arts schools, the endowment is the financial cornerstone of the College. Nearly all of Oberlin's 1,700 endowed funds are invested within the General Investment Pool. The College's Pooled Endowment was \$1,272.4 million at June 30, 2021, versus \$936.6 million at June 30, 2020, a \$335.8 million increase. The change in the total value from year to year is the result of changes in the market values of our pooled investments and the many donor-designated and board-designated gifts received from generous alumni and friends during the fiscal year, offset by the distribution of cumulative investment earnings. Such distributions of investment earnings from our endowment provide long-term funding for student financial aid, support faculty compensation and fund academic programs, and totaled \$40.1 million for operations. Capital and deferred gifts totaled \$7.7 million this fiscal year, of which \$6.9 million were donor-restricted endowed gifts. In fiscal year 2020, capital and deferred gifts were \$16.6 million, with \$14.4 million of donor-restricted endowed gifts. In fiscal year 2021, the College's net total investment return for the General Investment Pool was 42.8% as compared to a total net return in fiscal year 2020 of 4.9%, resulting in a top quartile ranking across the College's peer group.

Over the past 20 years, the General Investment Pool has grown from \$501.6 million to \$1,272.4 million. Oberlin College's spending and investment policies have provided substantial levels of financial support to the operating budget. The annual distributions are critical in supporting our academic mission while preserving endowment purchasing power for future generations.

Oberlin College's endowment has a highly diversified portfolio with allocations to hedge funds, private equity and real assets, which include venture capital, private real estate, private energy and other alternative investments. Our allocations to alternative investments have been higher than many other endowments our size. Historically, our relatively higher allocations have both increased investment returns and decreased volatility.

The following is the College's long-term strategic target and actual endowment portfolio allocation for the year ending June 30, 2021. The College's Investment Office staff adjusts our actual portfolio allocations in response to market conditions as directed by our Board's Investment Committee.

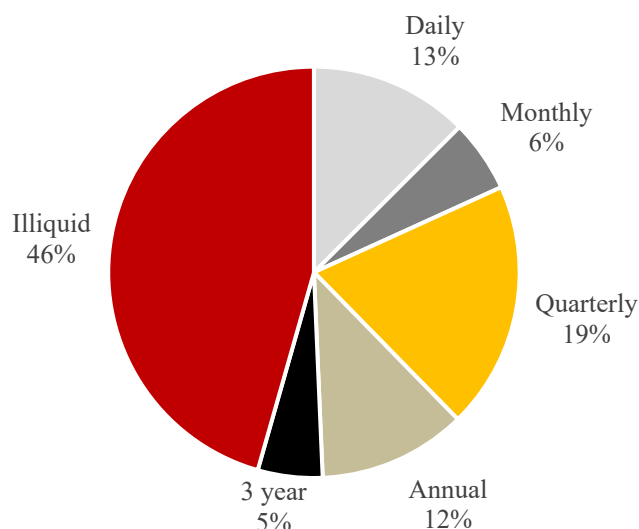
<b>Asset Allocation</b>	<b>Strategic Target</b>	<b>Actual</b>
<b>Cash and Cash Equivalents</b>	<b>5.0%</b>	<b>6.2%</b>
Developed Markets Equity	27.0%	26.0%
Emerging Markets Equity	6.0%	5.9%
<b>Total Equity</b>	<b>33.0%</b>	<b>31.9%</b>
Hedge Funds	25.0%	20.2%
Private Equity	15.0%	14.1%
Venture Capital	17.0%	23.7%
Real Assets	5.0%	3.9%
<b>Total Alternatives</b>	<b>62.0%</b>	<b>61.9%</b>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Actual investment balances at June 30, 2021 and 2020 are reflected in Footnote 2 to the financial statements. It should be noted that the College's Investment Office often rebalances endowment portfolio allocations at quarter end, which can result in higher than targeted levels of cash and larger investment proceeds receivable balances.

## **Liquidity**

The Investment Committee has increased liquidity in the endowment in recent years to avoid the risk of being forced to sell securities in highly distressed markets and manage potential needs related to the pandemic. The following chart depicts the total investment liquidity of the \$1,272.4 million General Investment Pool and \$70.7 million invested within our cash equivalents at June 30, 2021. The endowment has ample monthly and quarterly liquidity to meet projected cash needs for the next three years.

**Total Investment Liquidity as of June 30, 2021**



## **Plant Funds**

The second largest component of the College's total net assets is net assets related to plant facilities totaling \$165.5 million at June 30, 2021, as compared to \$166.5 million at June 30, 2020. Plant related funds are reflected in net assets without donor restrictions and net assets with donor restrictions, including cumulative gifts received over the years in support of investment in plant. Gifts designated by donors were \$2.1 million for the year ended June 30, 2021. Plant related funds consist primarily of the College's property, plant and equipment assets, at cost, net of accumulated depreciation and capital-related debt.

The College capitalized \$26.7 million to its land, buildings and equipment assets in the year ended June 30, 2021. During fiscal year 2021, capital expenditures focused on deferred maintenance projects such as Dascomb Hall renovations and the Keyless Entry project, as well as numerous other building improvements, equipment purchases and library acquisitions. Also, the College began Phase I of the Sustainable Infrastructure Program (SIP) during fiscal year 2021 supporting ongoing efforts toward carbon neutrality. The SIP is a multi-year, campus-wide project focused on upgrading the century-old heating infrastructure serving campus to a hot water system. The work will enable a large-scale geothermal system, add cooling to buildings and implement other building improvements that will increase student and faculty comfort year-round.

## **Debt**

The College has \$164.5 million of net outstanding bonded debt at June 30, 2021. In July 2021, the College issued \$111.0 million of taxable bonds to finance the first phase of the College's Sustainable Infrastructure Program (SIP) and to refinance a portion of the principal of bonds within the debt portfolio as well as the termination payment for an interest rate swap. The bonds issued for the SIP received certification by the Climate Bonds Initiative.

Effective and responsible debt portfolio management enables Oberlin to execute major strategic initiatives while preserving working capital. The Oberlin College Board of Trustees' Budget and Finance Committee and finance staff oversee the management of our long-term debt, utilizing both revenue bonds and derivative transactions to optimize our debt portfolio.

Oberlin's prudent debt portfolio management is designed to achieve the following objectives:

- Ensure that an appropriate mix of funding sources is used;
- Limit the overall debt to a level that, when combined with the College's strategic initiatives, will help preserve strong credit ratings over the long term;
- Achieve a low risk-adjusted cost of capital while balancing that effort appropriately with the College's exposure to market shifts; and
- Manage working capital, short-term investments and debt service requirements in a coordinated manner to optimize overall funding and investment return strategies.

The College's derivative transactions are described within Footnote 8 to the financial statements. In summary, the College used derivative transactions, including variable-to-fixed interest rate swaps and a basis swap involving taxable and tax-exempt variable interest rates, to limit the debt portfolio's exposure to long-term interest rate fluctuations as well as to lower the College's cost of capital at fixed rates well below historical levels.

During fiscal year 2020, the College elected to establish a sinking fund to generate the necessary funds for future debt retirement. At June 30, 2021 the sinking fund value was \$9.5 million.

## **OPERATING RESULTS – FISCAL YEAR 2021**

Oberlin College's Consolidated Statement of Activities presents the results of operations of the College and the net income or loss of its "tax credit" subsidiaries. Oberlin experienced an unrestricted surplus of \$2.9 million from College operations before consolidation in fiscal year 2021, as compared to \$2.4 million operating surplus last fiscal year. The College's subsidiary, College Properties of Northern Ohio had an accounting loss of \$2.9 million from depreciation and interest expense as well as nearly \$1.1 million loss due to the pandemic's disruption in operations. In summary, the College's consolidated Statement of Activities reflects an unrestricted operating net surplus of \$0.01 million.

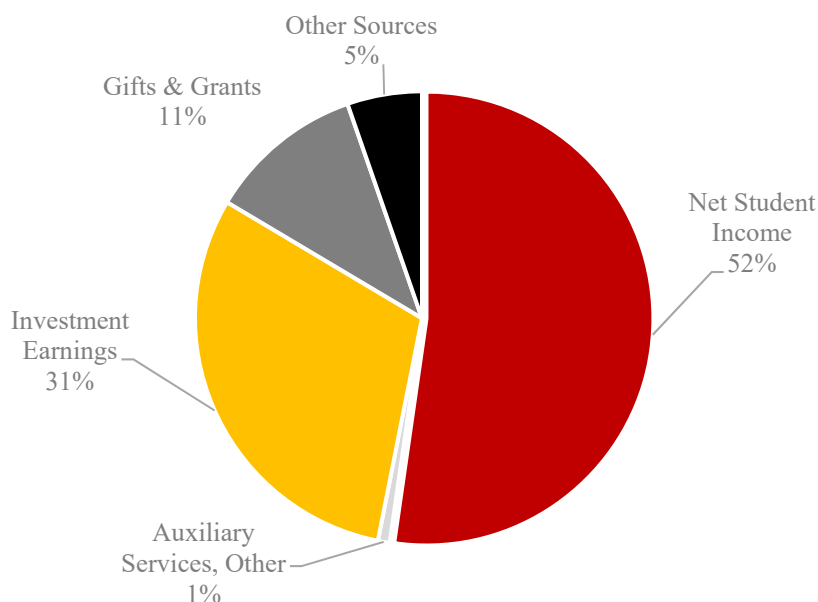
### **Results of Unconsolidated Operating Surplus**

As noted above, Oberlin College had an unconsolidated unrestricted operating surplus of \$2.9 million for fiscal year 2021. For the ten-year period ended June 30, 2021, Oberlin has generated a cumulative unconsolidated operating surplus of \$6.7 million, excluding restructuring charges of \$1.9 million and \$8.4 million recorded in 2018 and 2016, respectively. It should also be noted that Oberlin has accomplished these surpluses while fully funding its depreciation each year, using the funded depreciation as a source for capital maintenance, equipment replacement and other capital investments.

### **Operating Revenues**

Oberlin's consolidated total operating revenues were \$191.3 million for the year ended June 30, 2021 as compared to last year's \$187.7 million. The following chart depicts the various sources of operating revenue for the College and the relative percentages of each source to total operating revenues.

### Consolidated Operating Revenue by Source Fiscal Year Ended June 30, 2021

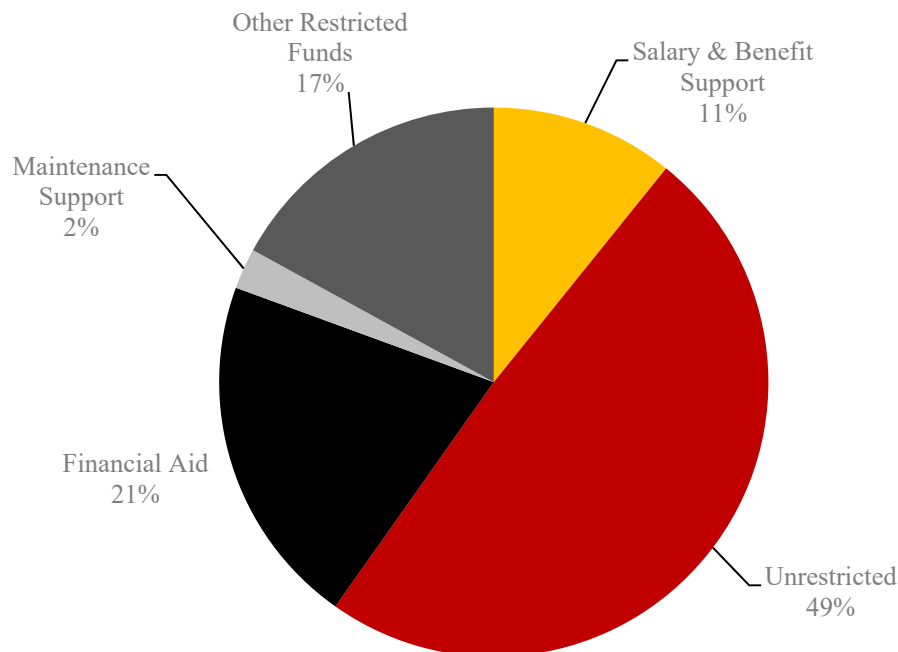


Net student income, comprised of tuition and fees, room and board, net of student financial aid, is the largest component of Oberlin's operating revenues. In 2021, net student income totaled \$100.8 million versus \$117.2 million in the previous year. In the fiscal year 2021, in response to the pandemic, the College developed a comprehensive strategy to enable a safe on campus experience. A key element of that strategy was the development of a three-semester academic year calendar and the development of hybrid and online courses. The College elected to expand its traditional in-person two-semester model to include a third semester to de-densify the classrooms and establish single occupancy in student housing. The associated revenue, net of expenses, from the 2021 summer term will be recognized in fiscal year 2022 and accounts for the decrease in net student income. In fiscal year 2021, the first-year class was lower than the prior year's and Fall 2020 headcount of 2,713 was down from Fall 2019 headcount of 2,846 in fiscal year 2020. Also, our discount rate increased from 46.8% last year to 48.8% this year (calculated as the percentage of total student aid to total tuition and fees). Tuition rates increased 3.0% in 2021, which is the same as 2020. Total student financial aid decreased by \$8.7 million in fiscal 2021, from \$75.8 million in fiscal year 2020 to \$67.1 million this year.

Earnings from endowment used in support of unrestricted operations are the second largest component of the College's unrestricted operating revenues. In fiscal year 2021, \$12.0 million of unrestricted operating support was provided in accordance with the College's endowment spending policy. This level of support compares to \$13.8 million in fiscal year 2020. Oberlin's endowment spending policy strives to increase the real value of the endowment, provide a dependable stream of support to the College's annual operating budget, and achieve earnings at a sustainable rate over the long-term while seeking to provide predictability and stability of endowment spending essential for long-range planning. The College continues to pursue its long-term objective of gradually reducing the payout rate of pooled endowment investments. Due to the pandemic's continued effect on the College's operations, the Board of Trustees approved additional operational support of \$18.5 million.

For fiscal year 2021, the College also distributed \$28.9 million in earnings from endowments that have a spending restriction. As depicted in the chart below, the majority of this restricted distribution was used to offset the cost of financial aid scholarships and to contribute toward the salaries and benefits of faculty and staff consistent with donor agreements.

### Endowment Payout Distribution by Category Fiscal Year Ended June 30, 2021



The total operating distribution of \$40.1 million equates to a spending rate of 4.5% of the 36-month weighted average of our general investment pool and 4.3% of the beginning market value. This compares to \$40.6 million distributed in fiscal year 2020, which equated to a spending rate of 4.7% of the 36-month weighted average, and 4.4% of the beginning market value of our general investment pool. Footnotes 1 and 2 to our financial statements further discuss the College's endowment investment and endowment spending policies.

Oberlin's third largest component of unrestricted operating revenues is support from unrestricted Private Gifts and Grants. The timing of the receipt of gifts, especially bequests, is unpredictable, and the varying size of such contributions can cause fluctuations in giving from year to year, as depicted in this chart (dollars in thousands).

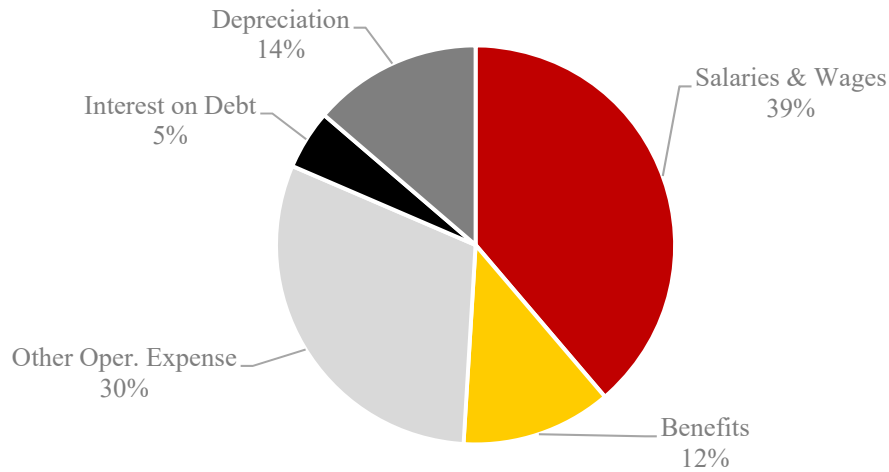
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Undesignated Bequests	\$2,538	\$1,760	\$1,273	\$2,995	\$7,190
Unrestricted Giving	<u>3,369</u>	<u>3,640</u>	<u>3,528</u>	<u>3,480</u>	<u>3,679</u>
<b>Total</b>	<b>\$5,907</b>	<b>\$5,400</b>	<b>\$4,801</b>	<b>\$6,475</b>	<b>\$10,869</b>

### **Operating Expenses**

Oberlin's consolidated operating expenses, which includes expenses both with and without donor restrictions, totaled \$182.1 million for the year ended June 30, 2021; an increase of \$0.5 million from the prior year's operating expenses of \$181.6 million, or 0.3%.

While the audited financial statements present operating expenses by function, as required by the current accounting and reporting standards, the following chart reflects the fiscal year 2021 operating expenses by natural classification, to enable greater analysis of expenses and spending trends.

### Consolidated Operating Expense by Natural Classification Fiscal Year Ended June 30, 2021



Salaries and wages are by far our largest component of operating expense, totaling approximately \$71.4 million in fiscal year 2021. This represents a decrease from the fiscal year 2020 total of \$74.8 million. This decrease in salaries and wages from the prior year reflects savings attributed to the implementation of reduction initiatives of overtime, temporary wages and student wages during the campus closure caused by the pandemic.

Other operating expense, which includes utilities expense and food costs among others, is our second largest spending component, totaling approximately \$56.1 million in fiscal year 2021. This represents an increase of 27% from the fiscal year 2020 total of \$44.1 million, and can primarily be attributed to current year increase in costs in fiscal year 2021 to de-densify the College, COVID-19 testing and preventive measures, net of initiatives to reduce travel, supplies and other operating costs avoided when campus operations were disrupted by the pandemic.

Employee benefits expense is our third largest component of operating expense. This expense classification, which includes expenses associated with the College's 403(b) employee defined contribution plan and the College's health plans for active employees and retirees, in addition to other employee benefit expenses, totaled \$22.4 million in fiscal year 2021, compared with \$30.5 million in fiscal year 2020.

## **LOOKING AHEAD – FISCAL YEAR 2021**

### **Enrollment**

First-year enrollment statistics are reflected in the chart below and shows another strong class with solid academic indicators and the addition of impressive talent to the Conservatory.

COLLEGE OF ARTS AND SCIENCES									
Fall Year	Applications	Admitted		Enrolled		Double Degree	Average SAT Score		
		No.	% of Applications	No.	% of Admitted		Verbal	Math	Writing
2012	5,842	1,978	34%	664	34%	45	692	674	685
2013	6,167	2,023	33%	683	34%	38	696	673	689
2014	6,038	2,094	35%	713	34%	34	690	671	683
2015	6,589	1,982	30%	690	35%	37	694	669	686
2016	7,257	2,093	29%	658	31%	35	688	676	678
2017	6,366	2,344	37%	644	27%	36	687	682	
2018	6,269	2,473	39%	713	29%	46	693	690	
2019	6,265	2,518	40%	697	28%	47	695	695	
2020	7,919	2,999	38%	579	19%	33	695	678	
2021	9,243	3,377	37%	777	23%	52			



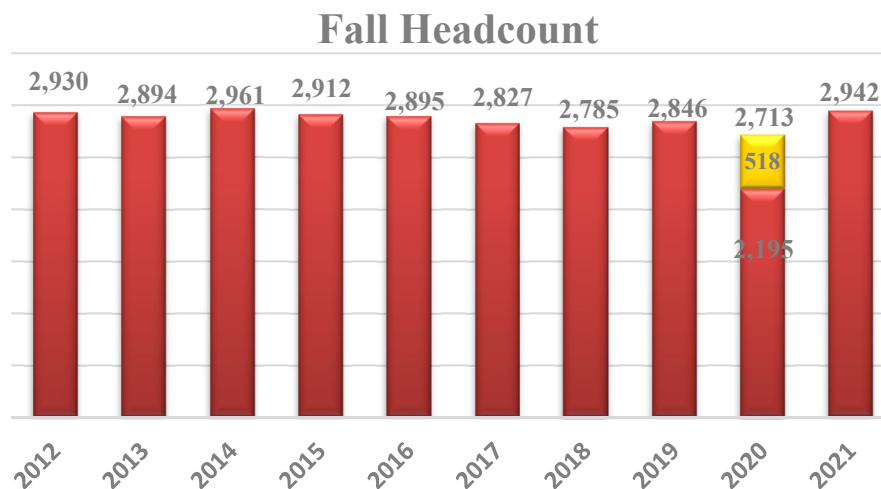
## CONSERVATORY OF MUSIC

Fall Year	Applications	Admitted			Enrolled		Double Degree	Average SAT Score		
		No.	% of Applications		No.	% of Admitted		Verbal	Math	Writing
2012	1330	377	28%	-	145	38%	45	664	649	649
2013	1271	341	27%		136	40%	38	643	641	644
2014	1189	377	32%		118	31%	34	650	630	642
2015	1195	359	30%		125	35%	37	652	626	639
2016	1261	399	32%		139	35%	35	639	622	632
2017	1396	388	28%		120	31%	36	667	642	
2018	1256	412	33%		138	33%	46	679	657	
2019	1444	420	29%		148	35%	47	658	637	
2020	1386	417	30%		134	32%	33	663	644	
2021	1,353	413	31%		139	34%	52			

\* Oberlin College became test optional during the pandemic for a 3-year period, through the 2022-2023 application year. At that time, the College will determine whether or not to continue with the test optional policy.

Applications for the Fall 2021 incoming class were significantly increased. The total enrollment of 2,942 exceeded the College's goals. Fall 2021 saw a return to the College's traditional in-person two-semester model from the 2020 three-semester academic year calendar created in response to the ongoing pandemic.

The first to second year retention rate was 91% in fall 2021 compared to 83% in the prior year. In 2020, the College experienced a significant increase in the number of first year students who elected to defer enrollment for one year due to the pandemic. Fall 2021 saw a return of those students as well as an increase in the number of new students.



### **Endowment**

Overall, our General Investment Pool continues to perform positively and ended a volatile fiscal year with a record setting market value of \$1,281.9 million, which includes \$1,272.4 million of pooled endowment and \$9.5 million allocated to the Sinking Fund. During fiscal year 2020, the College elected to establish a sinking fund to generate the necessary funds for future debt retirement. These funds are invested consistently within the General Investment Pool alongside the general endowment but are not endowed funds. Subsequent to June 30, 2021, the investment performance of our investment pool has continued to have favorable results, increasing to \$1.3 billion as of December 2021.

### **Bond Agency Ratings**

Oberlin College has long maintained strong ratings with Standard & Poor's (S&P) and Moody's, allowing Oberlin to issue bonds and refinance debt at optimal interest rates (see Footnote 6). These ratings reflect our ongoing efforts to

manage the College's finances in a challenging higher education market sector. In April 2021, S&P downgraded our AA rating to AA- and changed the outlook to stable from negative. In July 2021, Moody's affirmed Oberlin's Aa3 rating and changed the outlook to stable from negative. In July 2021 the ratings were reaffirmed by Moody's and S&P.

## **SUMMARY**

Oberlin College continues to respond to the unprecedented impacts of the global pandemic into fiscal year 2021. The College returned to a two-semester model while the additional expenses of a rigorous testing program to ensure the health and safety of the community, the costs to modify facilities and improve technology continued to affect the fiscal year 2021 bottom line. Government support and extraordinary withdrawals from the endowment, coupled with cost reductions, have allowed the College to sustain an environment of productive learning, scholarly activity and community building. These actions are in concert with the implementation of planned base budget savings for this fiscal year.

As noted previously, pre-pandemic threats to long-term financial sustainability existed in the higher education marketplace, especially among private liberal arts colleges. The One Oberlin report that was issued during fiscal year 2019 by an Academic and Administrative Program Review committee to address future challenges of the College was instrumental in providing the framework for reacting to the realities of the on-going pandemic. The College will continue to implement the recommendations included in the report that will further align institutional resources to the College's mission and build upon academic excellence.