# OBERLIN COLLEGE FINANCIAL REPORT

## YEAR ENDED JUNE 30, 2018

OBERLIN
COLLEGE & CONSERVATORY

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# Oberlin College
# Financial Report
**Year ended June 30, 2018**

# Financial Report 2017-2018

Rebecca Vazquez-Skillings, Vice President for Finance & Administration
Mary Jo Diekman, Associate Vice President for Finance

We are pleased to present Oberlin College's Annual Financial Report for the year ended June 30, 2018. This report includes our audit report, audited financial statements and related footnotes to the statements.

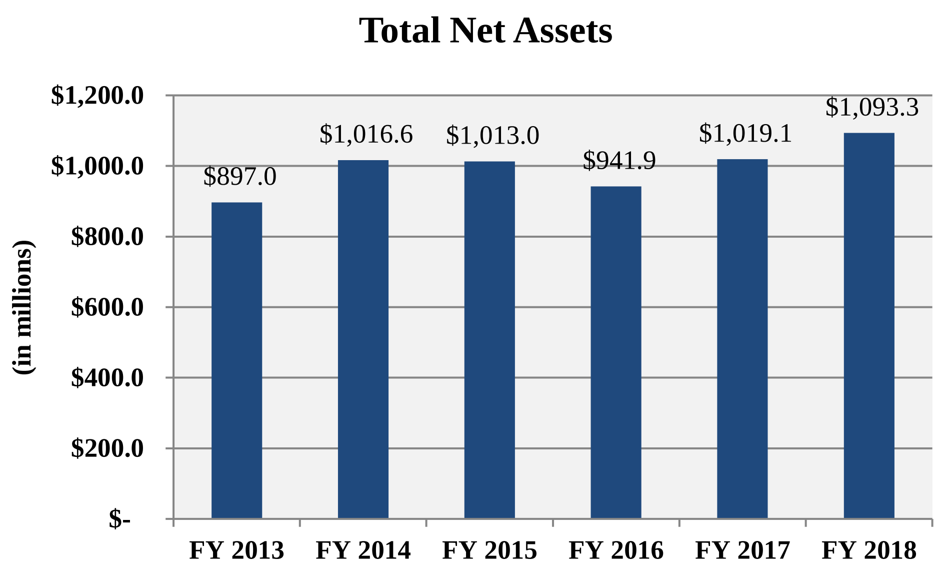
To provide the users of these financial statements with a better understanding of the College's financial position and operations, we include an overview of the institution's financial condition and operating results for the year. We also look ahead to 2019 and note items of significance that have occurred in the first part of the new fiscal year.

These statements include the consolidation of our Apollo Theater Project and the Gateway Complex Project. For both projects the costs and operations are being accounted for in subsidiaries as required for tax credit purposes. A discussion of these projects and entities in greater detail can be found in the related footnotes to our audited financial statements.

## FINANCIAL CONDITION

### Total Assets and Total Net Assets

Oberlin's total assets at June 30, 2018 were $1,401.1 million, an increase of $59.5 million, or 4.4%, from the previous fiscal year's $1,341.6 million. Total liabilities as of June 30, 2018 were $307.8 million, a decrease of $14.6 million from the prior year's $322.4 million, primarily related to payments made on the College's bonds payable and line of credit. Total net assets for the College were $1,093.3 million, compared to $1,019.1 million as of June 30, 2017. This represents an increase of $74.2 million, or 7.3%, during this fiscal year, as compared to the previous fiscal year's increase of $77.2 million, or 8.2% increase from June 30, 2016. The following chart reflects the total net assets of Oberlin College at June 30, 2018 and for the previous five fiscal years.



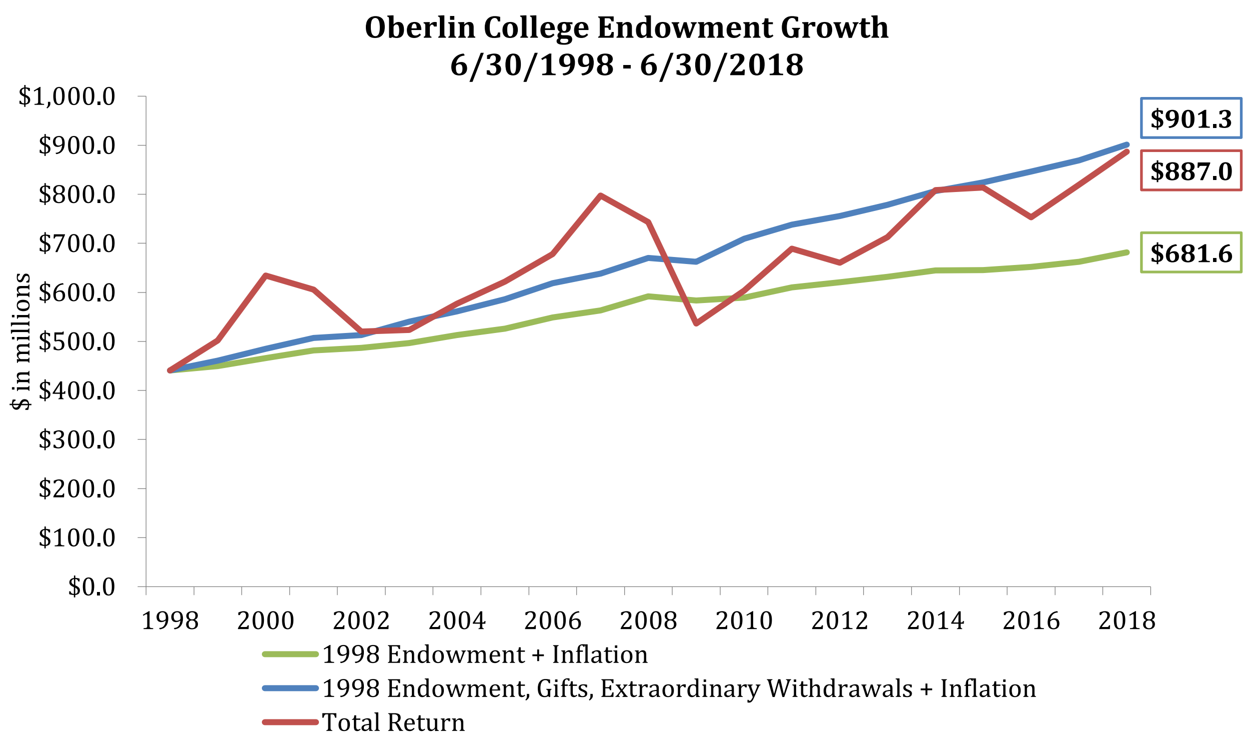

The majority of the College's net assets are within its endowed funds and plant funds. The increases and decreases in the College's total assets, as well as total net assets, are primarily the result of investment returns and the spending of cumulative earnings of the College's Endowed Funds.

**Endowed Funds**

Total endowed funds as of June 30, 2018 were $887.4 million, as compared to $820.3 million the previous year, an increase of $67.1 million. In comparison, total endowed funds increased by $66.8 million in the fiscal year ended June 30, 2017, from $753.5 million at June 30, 2016.

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 General Investment Pool was $887.0 million at June 30, 2018, versus $819.9 million at June 30, 2017, a $67.1 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- 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 $41.6 million for operations. Capital and deferred gifts totaled $12.5 million this fiscal year, of which $7.3 million were donor-designated endowed gifts. In fiscal year 2017, capital and deferred gifts were $18.7 million, with $7.2 million of donor-designated endowed gifts. In fiscal year 2018, the College's net total investment return for the General Investment Pool was 12.4% as compared to a total net return in fiscal year 2017 of 13.5%.

Over the past 20 years, the General Investment Pool has grown from $440.9 million to $887.0 million, as depicted in the chart below. 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.

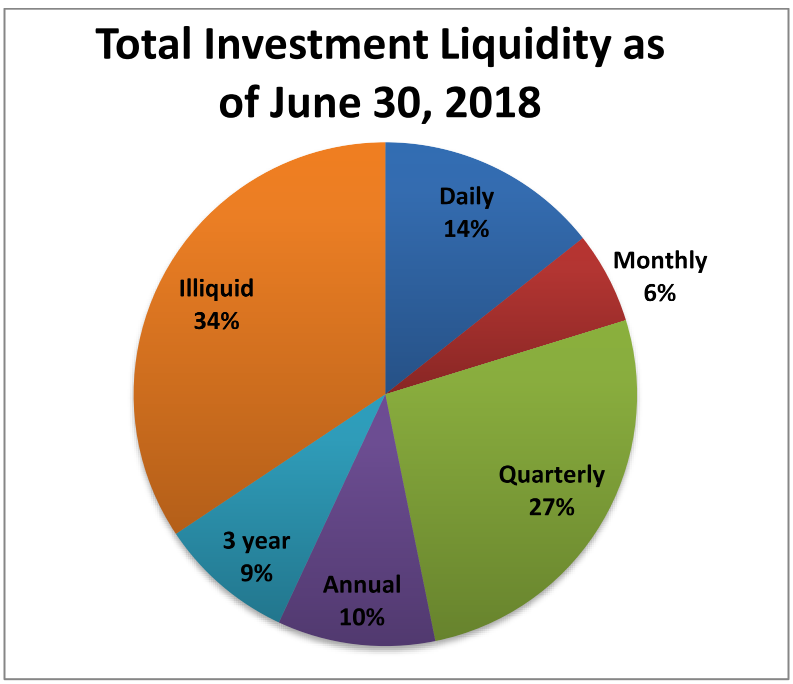
The following is the College's long-term strategic target and actual endowment portfolio allocation for the year ending June 30, 2018. The College's Investment Office staff adjusts our actual portfolio allocations in response to market conditions as directed by our Board's Investment Committee.

| Asset Allocation | Strategic Target | Actual |
|---|---|---|
| Cash | 5.0% | 6.8% |
| Fixed Income | | 0.4% |
| **Total Fixed Income** | **5.0%** | **7.3%** |
| | | |
| US Equity | 10.0% | 9.7% |
| International Equity | 11.0% | 11.0% |
| EM Equity | 4.0% | 3.3% |
| **Total Equity** | **25.0%** | **24.1%** |
| | | |
| Hedge Funds | 35.0% | 32.2% |
| Private Credit | 5.0% | 3.6% |
| Private Equity & Venture Capital | 22.0% | 26.8% |
| Real Assets | 8.0% | 6.0% |
| **Total Alternatives** | **70.0%** | **68.6%** |
| Total | 100.0% | 100.0% |

Actual investment balances at June 30, 2018 and 2017 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. The following chart depicts the total investment liquidity of the $887.0 million General Investment Pool and $3.1 million invested within our cash equivalents and short-term investments at June 30, 2018. The endowment has ample monthly and quarterly liquidity to meet projected cash needs for the next three years.



## Plant Funds

The second largest component of the College's total net assets is net assets designated for plant facilities, or plant equity, totaling $154.8 million at June 30, 2018, as compared to $154.4 million at June 30, 2017. Plant equity is reflected either in unrestricted net assets or temporarily restricted net assets, the latter representing cumulative gifts received over the years in support of investment in plant. Gifts designated by donors were $4.4 million for the year ended June 30, 2018. Plant equity consists primarily of the College's property, plant and equipment assets, at cost, net of accumulated depreciation and capital-related debt.

The College capitalized $18.9 million to its land, buildings and equipment assets in the year ended June 30, 2018. Major capital additions include $2.9 million for Phase II of the Gateway Complex Project, $2.6 million for library acquisitions, and $2.5 million for the final phase of the Bibbins Hall renovation, among others. At June 30, 2018, the College had $28.5 million in construction in progress which includes $13.1 million in construction costs from the Health and Wellness Center Project and $8.6 million for the Adaptable Theater Project, as well as assorted other campus improvement projects in process during the summer of 2018.

## Debt

The College had $184.0 million of outstanding bonded debt at June 30, 2018. During the prior year, the College issued bonds in the original principal amount of $39.8 million plus a bond premium of $3.5 million. A portion of the proceeds were used for an advance refunding of the 2009 bonds with a par value of $16.0 million. The remaining funds are being utilized to support capital renovations and improvements. Footnote 5 to the financial statements describes our outstanding bonds payable in greater detail.

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 appropriate 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 7 to the financial statements. In summary, the College has 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.

# OPERATING RESULTS – FISCAL YEAR 2018

Oberlin College's Consolidated Statements of Activities present the results of operations of the College and the net income or loss of its "tax credit" subsidiaries. Oberlin experienced an unrestricted surplus of $3.9 million from College operations before consolidation in fiscal 2018, as compared to $1.7 million operating surplus last fiscal year. In addition, the College took a restructuring charge of $1.9 million in 2018 for its voluntary separation incentive program. A similar program was offered in 2016. The College's Apollo subsidiaries reflected an accounting loss of $0.5 million in fiscal 2018 primarily resulting from depreciation expense. The College's Gateway subsidiary had an accounting loss of $1.5 million also primarily from depreciation and interest expense. In summary, the College's consolidated Statement of Activities reflects an unrestricted operating net surplus of $.05 million and an overall net surplus of $74.2 million.

**Results of Unconsolidated Operating Surplus**

As noted above, Oberlin College had an unconsolidated unrestricted operating surplus of $3.9 million for fiscal year 2018 excluding a restructuring charge. For the ten-year period ended June 30, 2018 Oberlin has generated a cumulative unconsolidated operating surplus of $5.8 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.

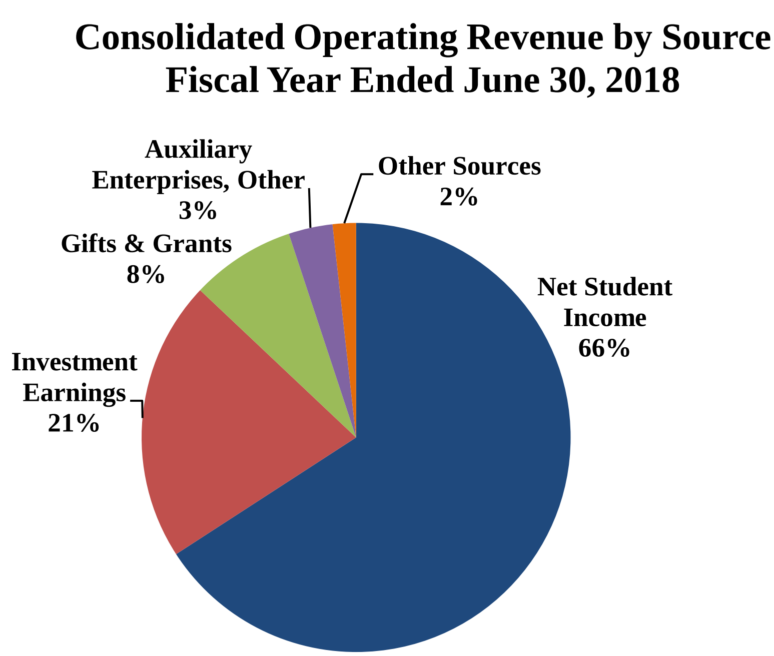
**Voluntary Separation Incentive Plan – Second Offering**

During the spring of 2016, a Voluntary Separation Incentive Plan (VSIP) was offered to all employee classes (faculty, professional staff and bargaining unit members). The plan was designed to encourage employees to consider retirement and allow the College to either replace the employee at a likely lower cost or to consider restructuring of programs and responsibilities without displacing any active employees. As discussed in Footnote 15 to the financial statements, eligibility for the VSIP required a combination of age and years of service equal or greater than 75 years, and the primary incentive offered was one year of current salary and one year of retiree healthcare benefits without a healthcare premium. A total of 97 employees participated in the VSIP out of 323 eligible employees, and an extraordinary charge of $8.4 million and the related liability was reflected in the June 30, 2016 financial statements related to the incentives to be received by the participants in the VSIP. The College has received substantial salary savings from this program in subsequent years.

During the 2018 fiscal year a second similar offering was extended to eligible faculty, with 17 opting to participate. The College has recorded an extraordinary charge of $1.9 million and the related liability for these costs in the June 30, 2018 financial statements.

**Operating Revenues**

Oberlin's consolidated total operating revenues were $185.6 million for the year ended June 30, 2018 as compared to last year's $184.7 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.

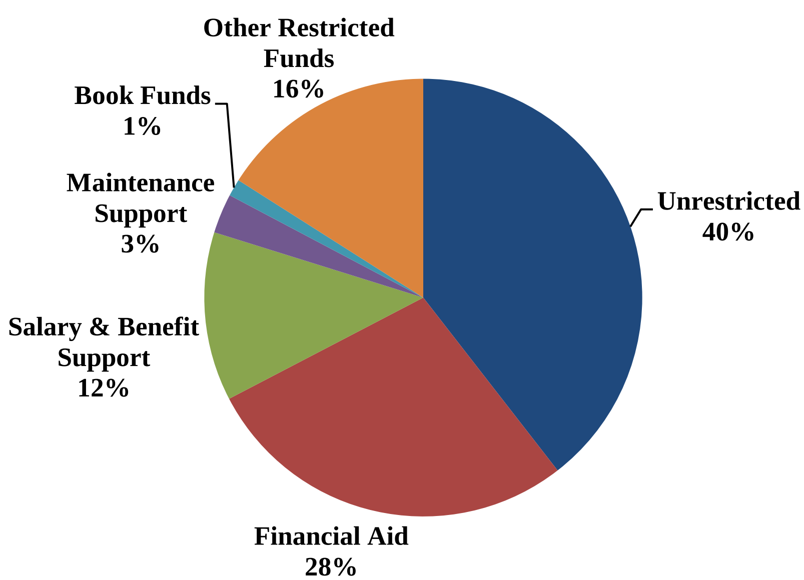



Net student income, comprised of tuition and fees, room and board, net of student financial aid, is the largest component of Oberlin's operating revenues, totaling $122.2 million in the current year versus $122.8 million the previous year, a decrease of $0.6 million. A smaller first year class resulted in lower student enrollment than the previous year, with Fall Headcount of 2827 down from 2895 in fiscal year 2017. Tuition rates increased 2.8% in both 2018 and 2017, after several years of 3.9% tuition rate increases. Total student financial aid increased by $1.5 million in fiscal 2018, rising from $64.5 million in fiscal year 2017 to $66.0 million this year. Our discount rate increased from 42.2% last year to 43.2% this year (calculated as the percentage of total student aid to total unrestricted tuition and fees).

Earnings from endowment used in support of unrestricted operations are the second largest component of the College's unrestricted operating revenues. In fiscal year 2018, $12.3 million of unrestricted operating support was provided in accordance with the College's endowment spending policy, and an additional $3.8 million of endowment earnings was approved by the Board of Trustees to support the operating budget. This level of support compares to $12.9 million in fiscal year 2017. 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, and the College continues to pursue its long-term objective of gradually reducing the payout rate of pooled endowment investments.

For fiscal year 2018, the College also distributed $25.5 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.

**Endowment Payout Distribution by Category**
**Fiscal Year Ended June 30, 2018**




The total operating distribution of $41.6 million equates to a spending rate of 5.4% of the 36-month weighted average of our general investment pool and 5.1% of the beginning market value. This compares to $39.5 million distributed in fiscal year 2017, which equated to a spending rate of 5.1% of the 36-month weighted average, and 4.9% 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.

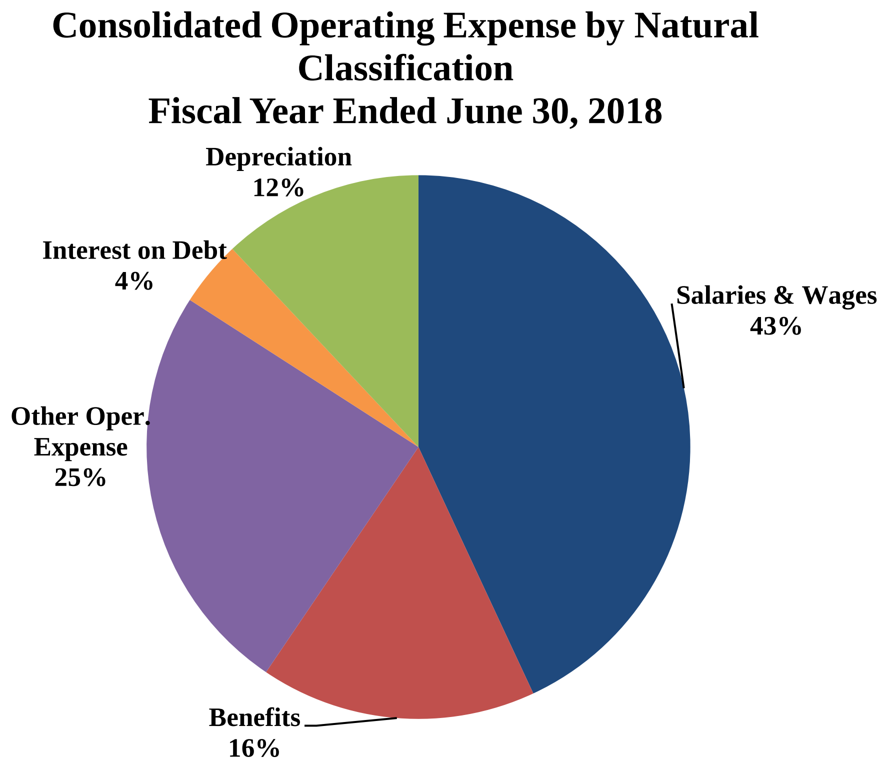
Oberlin's third largest component of unrestricted operating revenues is support from unrestricted Private Gifts and Grants. The timing of the receipt of bequests is unpredictable, and the varying size of such bequests can cause fluctuations in giving from year to year, as depicted in this chart (dollars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

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Undesignated Bequests | $2,042 | $4,850 | $1,430 | $2,538 | $1,760 |
| Unrestricted Giving | 3,742 | 3,365 | 3,233 | 3,369 | 3,640 |
| Total | $5,784 | $8,215 | $4,663 | $5,907 | $5,400 |

## Operating Expenses

Oberlin's consolidated operating expenses before restructuring totaled $184.7 million for the year ended June 30, 2018, a decrease of $1.6 million from the prior year's operating expenses of $186.3 million, or 0.9%. The reduction in operating expenses can be attributed to realized savings from the VSIP implemented in fiscal year 2016 as well as the College's efforts to carefully manage our resources by restructuring our operating budgets in order to maintain Oberlin's long-term financial sustainability.

While the audited financial statements present operating expenses by program, as required by the current accounting and reporting standards, the following chart reflects the fiscal year 2018 operating expenses by natural classification, or function, to enable greater analysis of expenses and spending trends.




Salaries and wages are by far our largest component of operating expense, totaling approximately $79.6 million in fiscal year 2018. This represents a decrease from the fiscal year 2017 total of $82.0 million. This decrease in salaries and wages from the prior year reflects savings attributed to the implementation of the voluntary separation incentive plan in fiscal 2016 as well as a zero wage pool for faculty and Administrative and Professional staff. Bargaining unit employees received wage increases in fiscal year 2018 in accordance with contracts.

Other operating expense, which includes utilities expense and food costs among others, is our second largest spending component, totaling approximately $45.5 million in fiscal year 2018. This represents an increase of 3.6% from the fiscal year 2017 total of $43.9 million, and can primarily be attributed to increased building maintenance expenditures and food costs resulting from a new student board plan for first year students implemented in fiscal year 2018.

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 $30.4 million in fiscal year 2018 as compared to $31.8 million in fiscal year 2017, a decrease of 4.4%. The decrease can primarily be attributed to favorable healthcare claims experience in fiscal 2018 and temporary savings in employer retirement plan contributions resulting from the one year eligibility requirement for new employees, many of whom were hired in calendar year 2017 to replace VSIP participants.

## LOOKING AHEAD – FISCAL YEAR 2019

### Enrollment

First-year enrollment statistics are reflected in the chart below. Applications are down somewhat from the record highs received in Fall 2016 for Arts & Sciences and Fall 2017 for the Conservatory of Music. The admit rates in Fall 2018 increased in response to the decrease in applications, and there was an increase in yield rates for both Arts & Sciences and the Conservatory of Music. This year's new class continues to demonstrate the outstanding academic and musical quality of our recent classes.

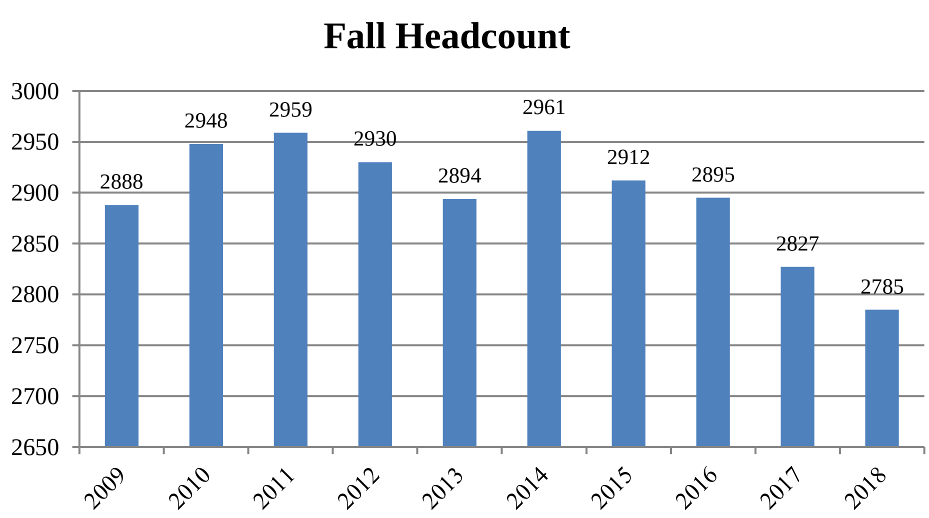
**COLLEGE OF ARTS AND SCIENCES**

| Fall | | Admitted | | Enrolled | | Double | Average SAT Score | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Applications | No. | % of Applications | No. | % of Admitted | Degree | Verbal | Math | Writing |
| 2009 | 5,939 | 2,184 | 37% | 696 | 32% | 27 | 700 | 676 | 690 |
| 2010 | 6,014 | 1,996 | 33% | 703 | 35% | 38 | 699 | 675 | 694 |
| 2011 | 6,117 | 1,942 | 32% | 647 | 33% | 33 | 699 | 678 | 696 |
| 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 | |

**CONSERVATORY OF MUSIC**

| Fall | | Admitted | | Enrolled | | Double | Average SAT Score | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Applications | No. | % of Applications | No. | % of Admitted | Degree | Verbal | Math | Writing |
| 2009 | 1287 | 332 | 26% | 140 | 42% | 27 | 631 | 618 | 642 |
| 2010 | 1208 | 301 | 25% | 119 | 40% | 38 | 662 | 641 | 652 |
| 2011 | 1277 | 340 | 27% | 137 | 40% | 33 | 647 | 628 | 652 |
| 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 | |

Retention for our returning classes was down slightly this year from our goal, and headcount for fall semester 2018 of 2,785 was also lower than fall 2017 of 2,827 despite the substantially larger first year class size.



### Endowment

Overall, our General Investment Pool has recovered nicely from the market decline we experienced in fiscal year 2016, with our $887.0 million market value setting a new record. Subsequent to June 30, 2018, the investment performance of our endowed investment pool has continued to have favorable results, increasing to $892.5 million in September 2018.

### Bond Agency Ratings

Oberlin College has long maintained strong ratings with Standard & Poor's and Moody's, allowing Oberlin to issue bonds and refinance debt at optimal interest rates (see Footnote 5). These ratings reflect our ongoing efforts to manage the College's finances in a challenging higher education market sector. In June 2018, Standard & Poor's affirmed our AA rating and changed the outlook to negative from stable. In October 2017, Moody's assigned Oberlin a rating of Aa3 with a negative outlook.

## SUMMARY

Although Oberlin College's financial condition continues to be very solid, we continue to carefully manage our resources in order to maintain Oberlin's long-term financial sustainability. In the face of challenges in the higher education marketplace, and private liberal arts colleges in particular, we must continue to maintain financial discipline in the years ahead, looking for opportunities to enhance revenues and control spending while continuing to provide exceptional academic instruction and a comprehensive residential experience for to our students. Steps taken in fiscal year 2019 include enhancements to our student room and board plans and a comprehensive review of our academic and administrative programs. The entire Oberlin community, inclusive of our board, our new President Carmen Twillie Ambar, our faculty and staff, our students and our alumni, remains united in a vision of a sustainable institution of academic and artistic excellence.

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Maloney
Maloney + Novotny LLC

Independent Auditors' Report

Board of Trustees
Oberlin College
Oberlin, Ohio

We have audited the accompanying financial statements of Oberlin College (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 auditors consider 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 Oberlin College as of June 30, 2018 and 2017, 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.

Maloney + Novotny LLC

Cleveland, Ohio
December 20, 2018

# Oberlin College
## Statements of Financial Position
### As of June 30, 2018 and 2017
### (dollars in thousands)

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 16,682 | $ 21,637 |
| Short-term investments | 226 | 307 |
| Accounts receivable, net | 4,066 | 4,615 |
| Pledges | 4,491 | 6,792 |
| Other current assets | 3,064 | 2,722 |
| **Total current assets** | $ 28,529 | $ 36,073 |
| **Other Assets** | | |
| Pledges, net | $ 17,704 | $ 19,419 |
| Student loans, net | 11,675 | 12,099 |
| Other long-term receivables | 14,221 | 14,221 |
| Other non-current assets | 4,461 | 4,651 |
| **Total other assets** | $ 48,061 | $ 50,390 |
| **Long-Term Investments** | | |
| Assets restricted to investment in land, buildings and equipment | $ 19,293 | $ 30,605 |
| Endowment funds | 887,392 | 820,333 |
| Annuity and life income funds | 41,200 | 41,337 |
| Funds held in trust by others | 18,555 | 17,866 |
| **Total long-term investments** | $ 966,440 | $ 910,141 |
| **Property, Plant and Equipment** | | |
| Land, buildings and equipment | $ 722,994 | $ 704,085 |
| Construction in progress | 28,519 | 12,366 |
| Less: accumulated depreciation | (393,437) | (371,498) |
| **Total property, plant and equipment** | $ 358,076 | $ 344,953 |
| **TOTAL ASSETS** | $ 1,401,106 | $ 1,341,557 |

*The Notes to Financial Statements are an integral part of these statements.*

# Oberlin College
## Statements of Financial Position
### As of June 30, 2018 and 2017
### (dollars in thousands)

| LIABILITIES and NET ASSETS | 2018 | 2017 |
|---|---|---|
| **Current Liabilities** | | |
| Accounts payable | $ 14,807 | $ 11,995 |
| Current portion of bonds payable | 3,070 | 2,340 |
| Deposits and agency funds | 5,170 | 5,340 |
| Other current liabilities | 5,844 | 14,524 |
| **Total current liabilities** | $ 28,891 | $ 34,199 |
| **Other Liabilities** | | |
| Accrued postretirement benefit obligation | 20,848 | 21,187 |
| Annuity obligations | 15,141 | 15,791 |
| Federal student loan funds | 5,202 | 6,231 |
| Loans payable | 38,267 | 39,213 |
| Other non-current liabilities | 18,589 | 20,989 |
| Bonds payable, net | 180,883 | 184,812 |
| **Total liabilities** | $ 307,821 | $ 322,422 |
| **Net Assets** | | |
| **Unrestricted -** | | |
| Current operations | $ (36,006) | $ (36,112) |
| Non-operating | (8,889) | (12,857) |
| Designated for specific purposes | 8,608 | 8,246 |
| Plant and facility funds | 46,907 | 45,441 |
| Endowment funds | 301,056 | 278,869 |
| **Total unrestricted** | $ 311,676 | $ 283,587 |
| **Temporarily Restricted -** | | |
| Donor designated for specific purposes | $ 37,009 | $ 38,812 |
| Annuity and life income funds | 11,750 | 11,339 |
| Unexpended plant and facility funds | 44,418 | 43,715 |
| Unamortized contributions for long-lived assets | 63,499 | 65,298 |
| Endowment funds | 309,670 | 272,303 |
| **Total temporarily restricted** | $ 466,346 | $ 431,467 |
| **Permanently Restricted -** | | |
| Student loan funds | $ 5,954 | $ 5,605 |
| Annuity and life income funds | 5,711 | 5,895 |
| Funds held in trust by others | 18,555 | 17,866 |
| Endowment funds | 285,043 | 274,715 |
| **Total permanently restricted** | $ 315,263 | $ 304,081 |
| **Total net assets** | $ 1,093,285 | $ 1,019,135 |
| **TOTAL LIABILITIES and NET ASSETS** | $ 1,401,106 | $ 1,341,557 |

*The Notes to Financial Statements are an integral part of these statements.*

# Oberlin College
## Statement of Activities
### For the year ended June 30, 2018
### (dollars in thousands)

| | 2018 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Operating Revenues** | | | | |
| Tuition and fees | $ 152,890 | $ 1,342 | | $ 154,232 |
| Room and board | 33,957 | | | 33,957 |
| Student aid | (65,981) | | | (65,981) |
| Net student income | 120,866 | 1,342 | | 122,208 |
| Auxiliary services, other | 6,166 | | | 6,166 |
| Government grants and contributions | | 2,476 | | 2,476 |
| Private gifts and grants | 5,400 | 6,745 | | 12,145 |
| Investment earnings | 16,146 | 23,192 | | 39,338 |
| Other sources | 2,996 | 265 | | 3,261 |
| Net assets released from restrictions | 35,024 | (35,024) | | |
| **Total operating revenues** | $ 186,598 | $ (1,004) | $ | $ 185,594 |
| **Operating Expenses** | | | | |
| Instruction | $ 86,413 | | | $ 86,413 |
| Research | 816 | | | 816 |
| Academic support | 24,200 | | | 24,200 |
| Student services | 15,754 | | | 15,754 |
| Institutional support | 24,202 | | | 24,202 |
| Auxiliary services, student and other | 33,265 | | | 33,265 |
| **Total operating expenses before restructuring costs** | $ 184,650 | | | $ 184,650 |
| Restructuring costs | 1,900 | | | 1,900 |
| **Total operating expenses** | $ 186,550 | | | $ 186,550 |
| **Change in net assets from operating activities** | $ 48 | $ (1,004) | $ | $ (956) |
| **Non-operating Activities** | | | | |
| Investment earnings | $ 5,351 | $ 4,736 | $ 2,336 | $ 12,423 |
| Unrealized gains | 18,128 | 32,160 | 520 | 50,808 |
| Capital and deferred gifts | 221 | 4,401 | 7,875 | 12,497 |
| Change in pledges | | (6,839) | 2,823 | (4,016) |
| Change in annuity obligations | 120 | 130 | 398 | 648 |
| Payments to beneficiaries | (1,250) | (216) | (514) | (1,980) |
| Post-retirement benefit obligation adjustment | 507 | | | 507 |
| Change in fair value of swap contracts | 3,970 | | | 3,970 |
| Redesignated funds and other | 994 | 1,511 | (2,256) | 249 |
| **Change in net assets from non-operating activities** | $ 28,041 | $ 35,883 | $ 11,182 | $ 75,106 |
| Change in net assets | 28,089 | 34,879 | 11,182 | 74,150 |
| Net assets at beginning of year | $ 283,587 | $ 431,467 | $ 304,081 | $ 1,019,135 |
| **Net assets at end of year** | $ 311,676 | $ 466,346 | $ 315,263 | $ 1,093,285 |

*The Notes to Financial Statements are an integral part of these statements.*

# Oberlin College
## Statement of Activities
### For the year ended June 30, 2017
### (dollars in thousands)

| | 2017 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Operating Revenues** | | | | |
| Tuition and fees | $ 152,808 | $ 1,359 | | $ 154,167 |
| Room and board | 33,079 | | | 33,079 |
| Student aid | (64,464) | | | (64,464) |
| Net student income | 121,423 | 1,359 | | 122,782 |
| Auxiliary services, other | 5,904 | | | 5,904 |
| Government grants and contributions | | 2,149 | | 2,149 |
| Private gifts and grants | 5,907 | 6,405 | | 12,312 |
| Investment earnings | 12,857 | 24,341 | | 37,198 |
| Other sources | 3,769 | 592 | | 4,361 |
| Net assets released from restrictions | 36,531 | (36,531) | | |
| **Total operating revenues** | $ 186,391 | $ (1,685) | $ | $ 184,706 |
| **Operating Expenses** | | | | |
| Instruction | $ 89,306 | | | $ 89,306 |
| Research | 867 | | | 867 |
| Academic support | 23,579 | | | 23,579 |
| Student services | 15,527 | | | 15,527 |
| Institutional support | 25,636 | | | 25,636 |
| Auxiliary services, student and other | 31,410 | | | 31,410 |
| **Total operating expenses** | $ 186,325 | | | $ 186,325 |
| **Change in net assets from operating activities** | $ 66 | $ (1,685) | $ | $ (1,619) |
| **Non-operating Activities** | | | | |
| Investment earnings / (losses) | $ 865 | $ (4,249) | $ 2,823 | $ (561) |
| Unrealized gains | 24,694 | 41,962 | 96 | 66,752 |
| Capital and deferred gifts | 377 | 10,121 | 8,211 | 18,709 |
| Change in pledges | | (5,428) | (2,245) | (7,673) |
| Change in annuity obligations | 43 | (978) | 186 | (749) |
| Payments to beneficiaries | (1,201) | (185) | (571) | (1,957) |
| Post-retirement benefit obligation adjustment | 215 | | | 215 |
| Change in fair value of swap contracts | 5,885 | | | 5,885 |
| Non-recurring bond defeasance charge | (759) | | | (759) |
| Redesignated funds and other | (12,708) | 12,525 | (868) | (1,051) |
| **Change in net assets from non-operating activities** | $ 17,411 | $ 53,768 | $ 7,632 | $ 78,811 |
| Change in net assets | 17,477 | 52,083 | 7,632 | 77,192 |
| Net assets at beginning of year | $ 266,110 | $ 379,384 | $ 296,449 | $ 941,943 |
| **Net assets at end of year** | $ 283,587 | $ 431,467 | $ 304,081 | $ 1,019,135 |

*The Notes to Financial Statements are an integral part of these statements.*

# Oberlin College

## Statements of Cash Flows

### For the years ended June 30, 2018 and 2017
### (dollars in thousands)

| | 2018 | 2017 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Change in net assets | $ 74,150 | $ 77,192 |
| Adjustments to reconcile change in net assets to net cash used for operating activities: | | |
| Depreciation | 21,939 | 21,948 |
| Net amortization of deferred financing costs | 107 | (340) |
| Changes in assets and liabilities that provide / (use) cash: | | |
| Accounts receivable | 549 | (300) |
| Other current and non-current assets | (152) | 523 |
| Pledges receivable | 4,016 | 7,673 |
| Accounts payable, accrued expenses and other liabilities | (4,297) | (6,443) |
| Deposits and agency funds | (170) | 2,263 |
| Accrued postretirement benefit obligation | (339) | 195 |
| Net adjustment of annuity obligations | (650) | 748 |
| Contributions restricted for long-term investments | (12,430) | (18,175) |
| Earnings restricted for long-term investment | (4,459) | (4,515) |
| Net realized and unrealized gains on long-term investments | (106,933) | (109,442) |
| Net cash used for operating activities | $ (28,669) | $ (28,673) |
| **Cash Flows From Investing Activities** | | |
| Purchases of plant and equipment, net | $ (35,062) | $ (30,252) |
| Proceeds from student loans collected | 1,419 | 1,473 |
| Student loans issued, net | (995) | (1,252) |
| Decrease / (increase) in short-term investments | 81 | (240) |
| Purchases of investments | (180,485) | (387,144) |
| Proceeds from sales and maturities of investments | 231,120 | 404,931 |
| Net cash provided by / (used for) investing activities | $ 16,078 | $ (12,484) |
| **Cash Flows From Financing Activities** | | |
| Proceeds from contributions for: | | |
| Investment in endowment | $ 7,279 | $ 7,237 |
| Investment in long-lived assets | 4,401 | 8,808 |
| Investment in life income agreements | 750 | 2,130 |
| Earnings restricted for long-term investment | 4,459 | 4,515 |
| Payments on long-term debt | (4,253) | (16,571) |
| Payments on short-term debt | (5,000) | - |
| Proceeds from issuance of long-term debt | - | 39,765 |
| Net cash provided by financing activities | $ 7,636 | $ 45,884 |
| Net (decrease) / increase in cash and cash equivalents | $ (4,955) | $ 4,727 |
| Cash and cash equivalents, beginning of year | 21,637 | 16,910 |
| Cash and cash equivalents, end of year | $ 16,682 | $ 21,637 |

*The Notes to Financial Statements are an integral part of these statements.*

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**General**

Oberlin College is an independent, coeducational institution consisting of two major divisions. The College of Arts and Sciences offers a balanced curriculum in the humanities, social sciences and natural sciences. The Conservatory of Music offers pre-professional training in music performance, composition, education, technology, theory and history.

**Basis of Presentation and Accounting**

The financial statements are presented on the accrual basis of accounting, focusing on the institution as a whole. These statements also reflect the assets, liabilities and operating activities of the Apollo Theater Project and Gateway Complex Project, with the elimination of inter-company transactions and balances. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes in net assets are classified as follows:

<u>Unrestricted net assets</u> – Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted funds designated by the Board of Trustees for long-term investment are classified as Board-designated endowment funds. Unrestricted net assets also include the cumulative earnings and gains of donor-restricted funds that do not have a corpus restriction, both realized and unrealized.

<u>Temporarily restricted net assets</u> - Temporarily restricted net assets consist primarily of gifts subject to donor-imposed stipulations and cumulative earnings and gains, both realized and unrealized, that may or will be met by Board appropriation, College spending and/or the passage of time. These net assets are used to support general instruction, scholarships, professorships, research, library operations and capital acquisition.

<u>Permanently restricted net assets</u> – Permanently restricted net assets consist primarily of gifts subject to donor-imposed corpus restriction that they be maintained permanently by the College. The Board of Trustees has specifically resolved that in the absence of explicit donor stipulations to the contrary, an amount equal to the aggregate fair value of (a) each permanent endowment fund of the College at the time it became an endowment fund, (b) each subsequent donation to the fund at the time it is made, and (c) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund is deemed to be the amount that must be retained permanently consistent with applicable law. In general, the donors of these assets permit the use of all or part of the cumulative earnings and gain, both realized and unrealized, on related investments for general or specific purposes. Permanently restricted net assets consist primarily of amounts whose income supports general instruction, scholarships, professorships and library funds.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Investment return is distributed for operations on a unit share basis as authorized by the Board of Trustees, and is reflected in investment earnings and gains and net assets released from restrictions in the statement of activities.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair market value. Contributions to be received after one year are stated at their net present value using an annual discount rate commensurate with the risks involved (7.0% for those intentions established prior to June 30, 2014 and 5.0% post July 1, 2014). Amortization of the discount is recorded as additional contribution revenue in accordance with donor- imposed restrictions, if any, on the contributions. An allowance for uncollectable contributions receivable is provided based upon management's judgment, considering such factors as prior collection history, type of contribution and nature of fund-raising activity. Based on prior history, no allowance is recorded at June 30, 2018 and 2017. Fundraising expenses of approximately $5,814 and $5,909 are reflected within institutional support in the statement of activities for the years ended June 30, 2018 and 2017, respectively.

Income and realized net gains on long-term investments are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund or as funds held in trust by others;
- as increases in temporarily restricted net assets if the terms of the gift or state law impose restrictions on the use of the income;
- as increases in unrestricted net assets in all other cases.

**Fair Value of Financial Instruments**

The College follows Financial Accounting Standards Board (FASB) Topic 820, Fair Value Measurements, for its financial instruments measured at fair value on a recurring basis. Topic 820 provides a framework for measuring fair value, expands disclosure about fair value measurements, and establishes a three level hierarchy for disclosure to show the extent and the level of judgment used to estimate fair value measurements:

Level 1 - Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date.

Level 2 - Uses inputs other than Level l that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets or liabilities in active markets and quoted prices in markets that are not active.

Level 3 - Uses inputs that are unobservable and are supported by little or no market activity, and reflects the use of significant management judgment. These values are generally determined using pricing models for which assumptions utilize management's estimates of market participant assumptions.

The College has adopted Accounting Standards Update No. 2015-07 (ASU 2015-07), Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or Its Equivalent). ASU 2015-07 removes the requirement to include investments in private investment companies in the fair value hierarchy for which fair value is measured using the NAV per share practical expedient under ASC 820. The College has retrospectively presented the 2017 disclosures.

The following table sets forth by level the College's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2018 and 2017. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The College's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the three levels.

| ASSETS | Level 1 | Level 2 | June 30, 2018<br>Level 3 | NAV | Total |
|---|---|---|---|---|---|
| Long-Term Investments | | | | | |
| Cash/Cash Equivalents | $ 52,384 | | | | $ 52,384 |
| Collateral Cash | 7,709 | | | | 7,709 |
| Emerging Markets Equity | 11,933 | | | $ 13,877 | 25,810 |
| Fixed Income | 3,820 | | | | 3,820 |
| Hedge Funds | 54 | | | 285,890 | 285,944 |
| International Equity | 382 | | | 97,586 | 97,968 |
| Private Credit | 24,919 | | | 7,008 | 31,927 |
| Private Equity | 3,998 | | | 237,933 | 241,931 |
| Real Assets | | | | 53,253 | 53,253 |
| U.S. Equity | 31,948 | | | 54,698 | 86,646 |
| Interests in gift annuities and trusts | 16,139 | | $ 25,061 | | 41,200 |
| Investments restricted for plant facilities | 19,293 | | | | 19,293 |
| Interests in funds held in trust by others | | | 18,555 | | 18,555 |
| **TOTAL** | **$ 172,579** | **$ -** | **$ 43,616** | **$ 750,245** | **$ 966,440** |
| **LIABILITIES** | | | | | |
| Interest rate swaps | | $ (8,889) | | | $ (8,889) |
| **TOTAL** | **$** | **$ (8,889)** | **$** | **$** | **$ (8,889)** |

| ASSETS | Level 1 | Level 2 | June 30, 2017<br>Level 3 | NAV | Total |
|---|---|---|---|---|---|
| Long-Term Investments | | | | | |
| Cash/Cash Equivalents | $ 52,964 | | | | $ 52,964 |
| Collateral Cash | 9,234 | | | | 9,234 |
| Emerging Markets Equity | 7,581 | | | $ 16,054 | 23,635 |
| Fixed Income | 37 | | | 3,883 | 3,920 |
| Hedge Funds | 15,701 | | | 243,306 | 259,007 |
| International Equity | 324 | | | 101,240 | 101,564 |
| Private Credit | 25,000 | | | 1,200 | 26,200 |
| Private Equity | 2,474 | | | 196,482 | 198,956 |
| Real Assets | 2 | | | 54,156 | 54,158 |
| U.S. Equity | 33,854 | | | 56,841 | 90,695 |
| Interests in gift annuities and trusts | 16,616 | | $ 24,721 | | 41,337 |
| Investments restricted for plant facilities | 30,605 | | | | 30,605 |
| Interests in funds held in trust by others | | | 17,866 | | 17,866 |
| **TOTAL** | **$ 194,392** | **$ -** | **$ 42,587** | **$ 673,162** | **$ 910,141** |
| **LIABILITIES** | | | | | |
| Interest rate swaps | | $ (12,857) | | | $ (12,857) |
| **TOTAL** | **$** | **$ (12,857)** | **$** | **$** | **$ (12,857)** |

The nature and risk of these investments as of June 30, 2018 and 2017 are as follows:

| | Fair Value at 6/30/18 | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Emerging Markets Equity | $ 13,877 | | Annually | 180 days |
| Hedge Funds | 285,890 | | Quarterly, Annually, >1 Year | 45 - 366 days |
| International Equity | 97,586 | | Monthly, Quarterly, Annually | 5 - 60 days |
| Private Credit | 7,008 | $ 23,050 | | |
| Private Equity | 237,933 | 97,298 | | |
| Real Assets | 53,253 | 16,869 | | |
| U.S. Equity | 54,698 | | Quarterly | 30 - 60 days |
| | **$ 750,245** | **$ 137,217** | | |

| | Fair Value at 6/30/17 | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Emerging Markets Equity | $ 16,054 | | Annually | 180 days |
| Fixed Income | 3,883 | | Monthly | 5 days |
| Hedge Funds | 243,306 | | Quarterly, Annually, >1 Year | 45 - 180 days |
| International Equity | 101,240 | | Monthly, Quarterly, Annually | 5 - 60 days |
| Private Credit | 1,200 | $ 18,800 | | |
| Private Equity | 196,482 | 106,632 | | |
| Real Assets | 54,156 | 17,582 | | |
| U.S. Equity | 56,841 | | Quarterly | 30 days |
| | **$ 673,162** | **$ 143,014** | | |

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

| | Balance at 6/30/17 | Contributions | Withdrawals | Change in MV | Balance at 6/30/18 |
|---|---|---|---|---|---|
| Interests in Gift Annuities and Trusts | $ 24,721 | $ 59 | $ (1,299) | $ 1,580 | $ 25,061 |
| Interests in Funds Held in Trust by Others | 17,866 | 59 | | 630 | 18,555 |
| **TOTAL** | **$ 42,587** | **$ 118** | **$ (1,299)** | **$ 2,210** | **$ 43,616** |

| | Balance at 6/30/16 | Contributions | Withdrawals | Change in MV | Balance at 6/30/17 |
|---|---|---|---|---|---|
| Interests in Gift Annuities and Trusts | $ 22,658 | $ 1,375 | $ (2,807) | $ 3,495 | $ 24,721 |
| Interests in Funds Held in Trust by Others | 16,778 | 1,397 | | (309) | 17,866 |
| **TOTAL** | **$ 39,436** | **$ 2,772** | **$ (2,807)** | **$ 3,186** | **$ 42,587** |

**Long-Term Investments**

The College classifies its investments into the following categories:

Cash and Cash Equivalents - The College invests in cash and cash equivalents, short-term investments and other securities with quoted prices in active markets. Typical liquidity for these investments is daily.

Collateral Cash - Cash overlay pools are used to provide the margin necessary to support the futures contracts. The size of the margin pool varies depending on the notional value of the future contracts. Futures contracts are used in the Fixed Income and Equity categories to maintain investment policy allocation and/or gain investment exposure to specific markets. Typical liquidity for these investments is daily.

Fixed Income - Fixed income investments include investments in government securities and corporate bonds via separate accounts, limited partnerships, commingled vehicles, and futures contracts. Typical liquidity for these investments is daily and monthly.

Funds Held in Trust by Others - These investments represent resources neither in the possession nor under the control of the College, but rather held and administered by outside trustees, with the College paid income or a residual interest from the assets of such funds. The fair value of these funds is based on inputs that are derived principally from observable market data which is used to estimate the future cash flows of the trust.

Gift Annuities and Trusts and Investments Restricted for Plant Facilities - These investments consist of annuity and life income funds and assets restricted to investment in land, buildings and equipment. The College invests in equities and fixed income securities with quoted prices in active markets.

Hedge Funds - Hedge funds seek to generate high long-term real returns and reduce volatility by exploiting market inefficiencies. Returns are achieved using various strategies including market neutral, long/short equity, credit, event driven, and global macro strategies. Typical liquidity for these investments is quarterly, annually, or greater than one year, with over 50% of the net asset value being accessible within one quarter.

Private Credit - Private equity-style draw-down vehicles that make loans to corporations and provide steady returns above comparable-duration public bonds. The vehicles are expected to generate and distribute interest cash flows throughout the vehicle's life. These investments are not redeemable but would be fully liquidated within four to six years.

Private Equity - Private equity investments include buyouts, distressed debt, and venture capital. The College diversifies these investments by geography and sectors. These investments are not redeemable. As these funds age in duration, distributions are received as the underlying portfolio companies are sold in the market. On average the underlying investments within the funds would be fully liquidated over the next five to 12 years.

Real Assets - Real assets include commodities, energy, natural resource equities, real estate, Treasury Inflation-Protected Securities (TIPS) and Real Estate Investment Trusts (REITs). Real asset investments are made both via liquid public markets (commodities, natural resource equities, REITs and TIPS) and via illiquid private equity structured funds (private real estate and private energy). The private real estate and private energy funds are not redeemable. As these funds age in duration, distributions are received as the underlying portfolio companies are sold in the market. The underlying companies within the private funds would be fully liquidated over the next eight to 12 years.

U.S. Equity, International Equity, and Emerging Markets Equity - The College invests in public equity securities in various geographical areas including U.S., developed markets (International Equity) and emerging markets. Public equity securities are owned either directly by the College or indirectly through investments in limited partnerships, limited liability companies, commingled vehicles and futures contracts. Fund liquidity is daily, monthly, quarterly and annually, with approximately 80% of the net asset value being accessible within one quarter or less.

**Interest Rate Swaps**

The fair value of the interest rate swaps is based on projected London InterBank Offered Rate (LIBOR) for the duration of the swap, values that, while observable in the market, are subject to adjustment due to pricing considerations for the specific instrument and the resulting fair values.

**Capital Commitments and Endowment Liquidity**

Investment funds in the private equity and real assets classes are typically organized as limited partnerships. A unique characteristic of these funds is that the investment manager requests (or 'calls') capital commitments from the investors as investment opportunities arise and distributes capital as investments are liquidated. Capital calls are typically made by the investment manager during years 1-5 of a fund's life while the majority of capital distributions do not occur until years 8-10 of a fund's life.

Due to the nature of alternative investments and the use of some limited partnerships and commingled vehicles in traditional asset classes (public equities and fixed income), the College contractually agrees to liquidity restrictions. The College, in response to this risk, closely monitors the liquidity of the portfolio. As of June 30, 2018, the following liquidity characteristics applied to the College's pooled endowment and board- designated endowment funds:

| Liquid within | % of Endowment |
|---|---|
| 1 year | 57% |
| 3 years | 9% |
| Illiquid | 34% |

Illiquid investments represent those invested in real assets and private equity limited partnerships. There is a very limited secondary market for these interests and selling them would require considerable time. The College is not actively trying to sell any of its illiquid investments at this time.

**Other Financial Instruments**

The carrying amount of student accounts receivable, accounts payable and accrued liabilities approximates fair value because of the short maturity of these instruments. A reasonable estimate of fair value of loans receivable under donor restricted and federally sponsored loan programs could not be made because the notes are not salable, and are subject to significant restrictions as to their transfer and disposition. The fair value of the College's bonds and loans payable, based on the College's current incremental borrowing rate for similar types of borrowing arrangements, approximates its carrying amount.

**Release of Restrictions on Net Assets for Acquisition of Land, Building and Equipment**

Contributions of exhaustible long-lived assets, cash or other assets to be used to acquire them, without donor stipulations concerning the use of such long-lived assets, are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be released over the estimated useful lives of the long-lived assets using the institution's depreciation policies.

**Collections and Works of Art**

The College has elected not to capitalize contributed collections. All works of art and collections are held for public exhibition, education or research; are protected, kept unencumbered, cared for, and preserved; and are subject to policies governing their use. Recognizing works of art as an asset of the institution would result in a material increase in property, plant and equipment and a corresponding increase in net assets in the statements of financial position.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation.

**Accounts Receivable, net**

The College uses the allowance method for accounts receivable. Management estimates the allowance and reserve based upon its assessment of historical collections and outstanding receivables. The allowance for doubtful accounts at June 30, 2018 and 2017 was $2,618 and $2,599, respectively.

**Unrestricted Bequests**

The College follows the policy of designating unrestricted bequests as additions to unrestricted board-designated funds or unrestricted plant funds.

**Split Interest Agreements**

The College is party to various split interest agreements, including perpetual trusts held by third parties, irrevocable charitable remainder trusts, charitable gift annuities, and pooled life income funds. Assets are invested by the College or by third-party trustees. Payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Contribution revenues for split-interest agreements are recognized at the dates the agreements are established. Revenues are recorded at fair value, net of the present value of the estimated future payments to be made to donors and/or other beneficiaries. The present value of payments to beneficiaries under split-interest agreements has been calculated using an annual discount rate of 7.0% for those agreements entered into prior to June 30, 2014 and 5.0% post July 1, 2014.

## Depreciation

Depreciation of the property, plant and equipment owned by the College and its subsidiaries has been computed using the mid-year convention under the following depreciation guidelines:

| | |
|---|---|
| Buildings and additions | 40 years |
| Building improvements and renovations | 20 years |
| Library books and materials | 15 years |
| Furniture and equipment | 10 years |

Using these guidelines, depreciation expense for years ended June 30, 2018 and 2017 was:

| | 2018 | 2017 |
|---|---|---|
| Educational and general properties | $ 13,388 | $ 13,415 |
| Library books and materials | 2,326 | 2,283 |
| Auxiliary properties | 6,225 | 6,250 |
| | $ 21,939 | $ 21,948 |

## Cash Flow Information

For financial statement purposes, the College considers all investments (not held for long-term investment) with original maturities of three months or less as cash equivalents. Cash payments for interest amounted to $7,842 in 2018 and $6,884 in 2017. Included in these amounts is $967 and $208 of capitalized interest, respectively. Interest expense was $7,769 and $6,820 for years ended June 30, 2018 and 2017, respectively. In addition, the College includes debt issuance costs as additional interest expense using the effective interest rate method that results in a constant effective yield over the life of the related debt. The College determined that amortizing debt issuance costs using the straight-line method over the term of the loan approximates the effective interest rate method.

## Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income, revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Tax Status

The College is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3). The College generates minor amounts of unrelated business income, annually files Form 990T and pays taxes on such income. The College recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the College, the continued tax-exempt status of bonds issued by the College and various positions related to potential sources of unrelated taxable income. The College believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements. As of June 30, 2018, the College's income tax years from 2014 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

## Reclassification

Certain June 30, 2017 data have been reclassified to conform to the June 30, 2018 presentation.

## 2. ENDOWMENT AND OTHER LONG-TERM INVESTMENTS

### Uniform Prudent Management of Institutional Funds Act

The College has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Pooled endowment assets are comprised of Board-designated and donor restricted endowment funds. The following table reflects the College's change in pooled endowment assets for the year ended June 30, 2018:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment Assets, 7/1/17 | $ 278,869 | $ 272,252 | $ 268,824 | $ 819,945 |
| Realized Gains | 16,743 | 31,357 | | 48,100 |
| Unrealized Gains | 18,152 | 31,896 | | 50,048 |
| Investment Return | $ 34,895 | $ 63,253 | $ | $ 98,148 |
| Contributions and transfers, net | 3,438 | 2,057 | 7,506 | 13,001 |
| Endowment distributions | (16,146) | (27,981) | | (44,127) |
| Endowment Assets, 6/30/18 | $ 301,056 | $ 309,581 | $ 276,330 | $ 886,967 |

The following table reflects the College's change in endowment assets for the year ended June 30, 2017:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment Assets, 7/1/16 | $ 258,061 | $ 234,798 | $ 260,289 | $ 753,148 |
| Realized Gains | 9,733 | 23,200 | | 32,933 |
| Unrealized Gains | 24,091 | 40,702 | | 64,793 |
| Investment Return | $ 33,824 | $ 63,902 | $ | $ 97,726 |
| Contributions and transfers, net | (159) | 2,006 | 8,535 | 10,382 |
| Endowment distributions | (12,857) | (28,454) | | (41,311) |
| Endowment Assets, 6/30/17 | $ 278,869 | $ 272,252 | $ 268,824 | $ 819,945 |

### Endowment Investment and Spending Policy

The College's investment policies are designed to ensure the achievement of a rate of return that adequately supports the College's mission while minimizing risk to the greatest extent possible. The College seeks to minimize downside volatility and other risks while maximizing returns. The objective is to achieve a total return that exceeds a weighted average of individual asset class benchmarks as defined. Oberlin College's Endowment Spending Policy is set by the College's Board of Trustees. The Board of Trustees takes great care in developing the broad objectives and specific spending methodology, giving consideration to a number of factors, including preservation of the College's endowment for perpetuity, economic conditions and the possible impact of inflation and deflation, the College's historical total return on endowment, the expected total returns and the related investment policies and targeted allocations to achieve the expected returns, and the other financial resources of the College. The broad objectives of the Endowment Spending Policy are to increase the real value of the endowment, to provide a dependable stream of current earnings distribution from the endowment pool to the College, to release earnings at a rate sustainable over the long term, and to seek to provide predictability and stability of endowment spending essential for long range planning. These broad objectives, and the Board's frequent evaluation of the factors noted above, allow the College to establish its specific spending methodology. The College's specific spending methodology involves applying a targeted long-term spending rate applied to the 36-month weighted average as adjusted by Board-imposed spending collars and also by a maximum spending rate applied to current market value. The actual payout rate for each fiscal year is approved annually by the Board of Trustees.

Investments in marketable equity and debt securities with readily determinable fair values are stated at the quoted market value based on the last trade price. The College has a substantial allocation to alternative investments, including hedge funds, private equity or real assets depending on the legal structure and investment strategy of the underlying manager. Nearly all of the valuations reported by alternative investment managers rely upon third-party administrators to objectively value positions and calculate Net Asset Value. Asset managers in private equity structured funds internally calculate values according to agreed upon procedures and provide audited financial statements at calendar year end. Some alternative investments are not readily marketable; therefore, the estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market for such investments existed. As most of the investment managers for these investments report their audited financial information only as of December 31st of each calendar year, these investments ($577,076 and $493,944 at June 30, 2018 and 2017, respectively) are valued by the College at estimated fair value based on a review of the most recent unaudited quarterly financial reports provided by investment managers.

Investments are exposed to various risks including interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment account balances and the amounts reported in the statements of financial position.

The College utilizes derivative financial instruments in pursuing its endowment investment objectives. Futures contracts are used to maintain asset class exposures in accordance with its (the College's) asset allocation policy, as well as to obtain exposure to movements in equity prices. Futures contracts provide reduced counterparty risk to the endowment since futures are exchange-traded, and the exchange’s clearinghouse, as the counterparty to all exchange-traded futures, guarantees the futures against default. The College uses a third-party advisor and has established policies and procedures to actively monitor and manage the market, credit and counter-party risks associated with these contracts. These financial instruments are valued at their notional exposure, net of leverage, as reflected in the following table (summarized by long-term investment asset class):

| | 2018 | 2017 |
|---|---|---|
| International Equity Futures | $ 7,709 | $ 9,075 |
| Total Notional | $ 7,709 | $ 9,075 |
| Collateral Cash | $ 7,709 | $ 9,234 |
| Net Leverage | $ - | $ (159) |

Net realized and unrealized gains (losses) in market value of investments are reflected in the statement of activities.

The College has committed to make $137,217 and $143,014 of additional investments at June 30, 2018 and 2017, respectively. These commitments will be satisfied over a five-year period from the maturities and redemptions of existing investments of a similar nature.

Long-term investments as reflected in the statements of financial position are detailed as follows:

| | June 30, 2018 | | June 30, 2017 | |
|---|---|---|---|---|
| | Book Value | Market Value | Book Value | Market Value |
| **GENERAL INVESTMENT POOL** | | | | |
| Cash and Cash Equivalents | $ 52,328 | $ 52,328 | $ 52,942 | $ 52,942 |
| Emerging Markets | 26,715 | 33,519 | 27,860 | 32,869 |
| Fixed Income | 1,570 | 3,784 | 1,382 | 3,883 |
| Hedge Funds | 208,853 | 285,944 | 196,871 | 259,007 |
| International Equity | 60,129 | 97,908 | 68,432 | 101,516 |
| Private Credit | 32,063 | 31,927 | 26,277 | 26,200 |
| Private Equity | 210,563 | 241,931 | 192,872 | 198,956 |
| Real Assets | 57,121 | 53,253 | 58,911 | 54,156 |
| U.S. Equity | 26,364 | 86,373 | 33,235 | 90,416 |
| Total General Investment Pool | $ 675,706 | $ 886,967 | $ 658,782 | $ 819,945 |
| **Non Pooled Endowment** | | | | |
| Cash & Cash Equivalents | $ 56 | $ 56 | $ 22 | $ 22 |
| Fixed Income | 37 | 36 | 37 | 37 |
| International Equitiy | 33 | 60 | 35 | 48 |
| Real Assets | | | 2 | 2 |
| US Equity | 210 | 273 | 241 | 279 |
| Total Separately Invested Funds | $ 336 | $ 425 | $ 337 | $ 388 |
| **TOTAL ENDOWMENT** | **$ 676,042** | **$ 887,392** | **$ 659,119** | **$ 820,333** |
| **ANNUITY AND LIFE INCOME FUNDS** | | | | |
| **Pooled Income Fund Trusts** | | | | |
| Cash & Cash Equivalents | $ 71 | $ 71 | $ 77 | $ 77 |
| Fixed Income | 1,245 | 1,230 | 1,193 | 1,202 |
| International Equity | 117 | 146 | 125 | 154 |
| Real Assets | 260 | 286 | 256 | 276 |
| U.S. Equity | 234 | 398 | 251 | 404 |
| Total Pooled Income Fund Trusts | $ 1,927 | $ 2,131 | $ 1,902 | $ 2,113 |
| **Gift Annuity Pool** | | | | |
| Cash & Cash Equivalents | $ 423 | $ 423 | $ 348 | $ 348 |
| Emerging Markets | 702 | 794 | 834 | 921 |
| Fixed Income | 4,474 | 4,353 | 4,591 | 4,567 |
| International Equity | 1,958 | 2,506 | 2,102 | 2,727 |
| Real Assets | 1,903 | 2,171 | 1,838 | 2,121 |
| U.S. Equity | 3,643 | 5,892 | 3,695 | 5,932 |
| Total Gift Annuity Pool | $ 13,103 | $ 16,139 | $ 13,408 | $ 16,616 |
| **Annuity Trusts And Unitrusts** | | | | |
| Cash & Cash Equivalents | $ 576 | $ 576 | $ 554 | $ 554 |
| Emerging Markets | 1,026 | 1,152 | 1,182 | 1,279 |
| Fixed Income | 5,900 | 5,782 | 5,569 | 5,596 |
| International Equity | 3,307 | 3,781 | 3,418 | 3,906 |
| Real Assets | 3,089 | 3,156 | 2,921 | 2,954 |
| U.S. Equity | 5,715 | 8,483 | 5,864 | 8,319 |
| Total Separately Invested Funds | $ 19,613 | $ 22,930 | $ 19,508 | $ 22,608 |
| **TOTAL ANNUITY &TRUSTS** | **$ 34,643** | **$ 41,200** | **$ 34,818** | **$ 41,337** |
| **RESTRICTED FOR PLANT FACILITIES** | | | | |
| Cash & Cash Equivalents | $ 171 | $ 171 | $ 203 | $ 203 |
| Fixed Income | 14,204 | 14,204 | 25,547 | 25,547 |
| Real Assets | 4,918 | 4,918 | 4,855 | 4,855 |
| **TOTAL RESTRICTED FOR PLANT FACILITIES** | **$ 19,293** | **$ 19,293** | **$ 30,605** | **$ 30,605** |
| **FUNDS HELD IN TRUST BY OTHERS** | **$ 15,675** | **$ 18,555** | **$ 15,616** | **$ 17,866** |
| **TOTAL ASSETS FOR LONG-TERM INVESTMENT** | **$ 745,653** | **$ 966,440** | **$ 740,158** | **$ 910,141** |

## 3. STUDENT LOANS

Student loans receivable are carried at face value, less an allowance for doubtful accounts of $1,383 at June 30, 2018 and 2017. The interest rate on federal student financial aid was 5.0% for the years ended June 30, 2018 and 2017. Maturity dates range up to 10 years.

## 4. PLEDGES RECEIVABLE

Unconditional promises to give and bequests in probate are included in the financial statements as pledges receivable, and as revenue within the appropriate net asset category. Certain promises to give are recorded after discounting to the present value of the future cash flows. Pledges of $12,123 and $9,757, due within one year, that are restricted for long-term purposes have been classified as other assets on the statements of financial position at June 30, 2018 and 2017, respectively.

Unconditional promises to give are expected to be realized in the following periods:

| | 2018 | 2017 |
|---|---|---|
| In one year or less | $ 16,614 | $ 16,549 |
| Between one year and five years | 3,800 | 7,081 |
| Greater than five years | 5,876 | 7,320 |
| Less discount | (4,095) | (4,739) |
| | $ 22,195 | $ 26,211 |

## 5. BONDS PAYABLE

Bonds payable, net of bond premium, bond discount and deferred financing costs, at June 30, 2018 and 2017 consisted of the following:

| **Ohio Higher Educational Facility Commission** | 2018 | 2017 |
|---|---|---|
| Revenue Bonds dated October 1, 2009, maturing on October 1, 2019 in the amount of $36,600, with an interest rate of 5.000%, plus net bond premium of $872 and $1,453 and less deferred financing cost of $51 and $84 at June 30, 2018 and 2017, respectively. | $ 37,421 | $ 37,969 |
| Revenue Bonds dated September 12, 2013, maturing annually October 1, 2017 through 2038 in amounts ranging from $910 to $5,610 with an interest rate of 3.000% to 5.000%, plus bond premium of $2,270 and $2,489 and less deferred financing cost of $397 and $435 at June 30, 2018 and 2017, respectively. | 50,318 | 52,840 |
| Series 2014A, Bank Private Placement Variable Rate Bond, dated September 16, 2014, maturing annually October 1, 2023 through 2048 in amounts ranging from $965 to $2,295, less deferred financing cost of $126 and $133 at June 30, 2018 and 2017, respectively. | 39,874 | 39,867 |
| Series 2014B, Bank Private Placement Fixed Rate Bond, dated September 16, 2014, maturing on October 1, 2024 with an interest rate of 1.780% through September 1, 2019 and an assumed rate of 3.000% thereafter through maturity, less deferred financing cost of $33 and $39 at June 30, 2018 and 2017, respectively. | 13,827 | 13,821 |
| Revenue Bonds dated April 12, 2017, maturing annually October 1, 2018 through 2047 in amounts ranging from $650 to $10,955 with an interest rate of 2.000% to 5.000%, plus bond premium of $3,206 and $3,372 and less deferred financing cost of $458 and $482 at June 30, 2018 and 2017, respectively. | 42,513 | 42,655 |
| **Total Bonds Payable, Net of Bond Premium, Bond Discount and Deferred Financing** | $ 183,953 | $ 187,152 |

In April 2017, the Ohio Higher Educational Facility Commission (the Commission) issued Higher Educational Facility Revenue Bonds on behalf of the College in the original principal amount of $39,765 plus a bond premium of $3,455. A portion of these bonds (par value $15,725) was used for an advance refunding of the outstanding principal of the October 2009 Revenue Bonds. The remaining funds are being utilized to support campus capital improvement projects. The College has entered into a lease agreement with the Commission on the properties financed with proceeds of the bonds. Payments due under the lease agreement represent the principal and interest due on the bonds.

In September 2014, Wells Fargo Municipal Capital Strategies, LLC facilitated a direct purchase refinancing of the College's outstanding Ohio Higher Educational Facility Variable Rate Revenue Bond, Project 2008 in the amount of $40,000, and converted the interest rate mode of the Bonds to a Bank Private Placement Variable Rate Bond, Series 2014A. The College's original lease agreement with the Commission on the properties financed with proceeds of the bonds remains in effect. Payments due under the lease agreement represent the principal and interest due on the bonds.

In September 2014, Wells Fargo Municipal Capital Strategies, LLC facilitated a direct purchase refinancing of the College's outstanding Ohio Higher Educational Facility Revenue Bond, 2014 maturity of the 2009 Project in the amount of $13,860, as a Bank Private Placement Fixed Rate Bond, Series 2014B. The College's original lease agreement with the Commission on the properties financed with proceeds of the bonds remains in effect. Payments due under the lease agreement represent the principal and interest due on the bonds.

In September 2013, the Ohio Higher Educational Facility Commission (the Commission) issued Higher Educational Facility Revenue Bonds on behalf of the College in the original principal amount of $52,395 plus a bond premium of $3,298. A portion of these bonds was used for a current refunding of the outstanding principal of the September 2003 Revenue Bonds. The remaining funds were utilized to support construction of the new Austin E. Knowlton Athletics Complex and improvements to the Central Heating Plant. The College has entered into a lease agreement with the Commission on the properties financed with proceeds of the bonds. Payments due under the lease agreement represent the principal and interest due on the bonds.

In October 2009, the Ohio Higher Educational Facility Commission (the Commission) issued $67,260 in Higher Educational Facility Revenue Bonds to refinance the 2005 Bonds (par value $49,770), the 2006 Bonds (par value $25,170) and to refinance $3,010 of the 1999 Bonds. The Higher Educational Facility bonds were issued at a premium of $11,456. The College has entered into a lease agreement with the Commission on the properties financed with proceeds of these bonds. Payments due under the lease agreement represent the principal and interest due on the bonds. Bonds with a par value of $16,000 were legally defeased with the April 2017 bond offering.

Future principal payments on the College's outstanding bonds at June 30, 2018 are as follows:

| | |
|---|---|
| 2019 | $ 3,070 |
| 2020 | 39,060 |
| 2021 | 3,310 |
| 2022 | 3,465 |
| 2023 | 3,635 |
| Thereafter | 126,130 |
| | $ 178,670 |

The estimated fair market value of the College's bond payable at June 30, 2018 is $188,713.

## 6. NOTES PAYABLE

The College has two $10,000 unsecured bank lines of credit with two banks. Both lines of credit have interest accruing at 30-day LIBOR plus 90 basis points (0.90%). One line of credit has interest accruing at 20 basis points (0.20%) on that portion of the line that is not encumbered. One line is a demand line of credit without a stated maturity and the other line expires on July 24, 2019. The balance outstanding on these lines of credit at June 30, 2018 and 2017 was $-0- and $5,000, respectively, and is reflected in other current liabilities on the statements of financial position.

During fiscal year 2014, the College secured a maximum commitment term note in the amount of $18,000 from a local bank for construction purposes as part of the Gateway Complex Project, effective July 1, 2014 and terminating July 1, 2024. Interest shall accrue at 3-month LIBOR plus 70 basis points (0.70%). According to the terms of the note, the College made interest only payments between the closing date and July 1, 2017. Effective October 1, 2017, the notional amount of the term note will amortize by $180 per quarter with a final balloon payment due on the termination date. The balance outstanding on this term note at June 30, 2018 and 2017 was $17,460 and $18,000, respectively. At June 30, 2018 and 2017, $720 and $540, respectively, is reflected within other current liabilities and the remainder is reflected within other non-current liabilities on the statements of financial position.

Future principal payments on the College's maximum commitment term note at June 30, 2018 are as follows:

| | |
|---|---|
| 2019 | $ 720 |
| 2020 | 720 |
| 2021 | 720 |
| 2022 | 720 |
| 2023 | 720 |
| Thereafter | 13,860 |
| | $ 17,460 |

## 7. INTEREST RATE SWAP ARRANGEMENTS

The College entered into a basis swap arrangement with an initial notional amount of $71,885, effective December 1, 2005, and terminating October 1, 2033. Under the terms of this basis swap arrangement, the College receives semi-annual interest payments based on 68% of the 3-month LIBOR plus 45.2 basis points (0.452%) and makes semi-annual interest payments based on 100% of the variable Securities Industry and Financial Markets Association Municipal Swap Index interest rate. The notional amount of the swap arrangement, which amortizes to zero concurrent with the original amortization of the 1999 and 2003 bonds, was $39,650 and $41,370 at June 30, 2018 and 2017, respectively. The net settlement amount earned under this swap arrangement was $215 and $194 for the years ended June 30, 2018 and 2017, respectively, and is included in operating income in the statement of activities.

The College entered into an interest rate swap arrangement in October 2007 with an initial notional amount of $77,870, terminating October 1, 2048. This interest rate swap arrangement was amended and restated to $40,000, matching the 2008 bond issuance, effective April 18, 2008. Under the terms of this amended swap arrangement, the College receives monthly interest payments based on 68% of 3-month LIBOR and makes monthly interest payments at a fixed interest rate of 3.565%. The notional amount of the swap arrangement will amortize over the original term of the 2008 bonds. The net settlement amount expensed was $950 and $1,158 for the year ended June 30, 2018 and 2017, respectively.

The College entered into an interest rate swap arrangement in June 2014 with an initial notional amount of $18,000, effective July 1, 2016 and terminating June 27, 2024. During the draw period, which ended June 30, 2016, the College accrued interest at 3-month LIBOR plus 70 basis points (0.70%). Under the terms of this swap arrangement, the College will make monthly interest payments at a fixed interest rate of 3.99%. The net settlement amount expensed was $294 and $435 for the year ended June 30, 2018 and 2017, respectively. The notional amount of the swap arrangement will amortize by $180 per quarter beginning fiscal year 2018 with a final balloon payment due on the termination date.

The fair market value of interest swap arrangements is the estimated amount that the College would receive (or would be required to pay) to terminate these contracts as of the fiscal year end. The swap arrangements currently carry no collateral requirement. The accounting for these agreements follows accounting principles generally accepted in the United States. The estimated cumulative fair value gain is included in long-term investments in the statements of financial position. The estimated cumulative fair value (loss) is included within other non-current liabilities in the statements of financial position. Changes in the fair value of these contracts are recorded as other non-operating items in the statement of activities. These agreements were entered into in order to manage interest rate exposures and qualify as fair value hedges.

The fair market value of these arrangements, which is included in other non-current liabilities on the statements of financial position and is classified as Level 2 of the fair value hierarchy at June 30, is as follows:

| | 2018 | 2017 |
|---|---|---|
| Interest rate swap arrangement effective December 1, 2005 | $ 805 | $ 716 |
| Interest rate swap arrangement effective April 18, 2008 | (9,262) | (12,168) |
| Interest rate swap arrangement effective July 1, 2016 | (432) | (1,405) |
| **Total Fair Market Value of Interest Rate Swap Arrangements** | $ (8,889) | $ (12,857) |

## 8. GATEWAY COMPLEX PROJECT

During fiscal year 2014, the College began development of the Gateway Complex Project. The project involves the acquisition, rehabilitation, and redevelopment of the Oberlin Inn to be known as the Gateway Complex. The property is held in College Properties of Northern Ohio, Inc., a wholly owned subsidiary and supporting nonprofit organization of the College. The project includes the construction of a new hotel with a conference center, retail space, and a wing for the College's Admissions operations and additional academic space at a projected cost of approximately $40,000. The project contains a fundraising component, utilizes Federal New Market Tax Credit funding as well as funds to be advanced by the College. The College secured a maximum commitment term note in the amount of $18,000 from a local bank and finalized three tax credit issues in connection with the project. The Hotel at Oberlin opened in 2016 and the remainder of the project was completed in the spring of 2017.

To facilitate the first Federal New Market Tax Credit structure, on December 31, 2013, the College loaned a total of $2,076 in the form of a note to DVCI XVIII QEI, LLC, an unrelated entity. The note bears interest at the rate of 1.0524% per annum and is payable quarterly. The note matures December 31, 2038 with interest only payments to be paid quarterly until December 31, 2020 at which time principal and interest payments will be due in the amount of $32 per quarter. The related notes receivable balance is included in other long-term receivables on the statements of financial position.

College Properties of Northern Ohio, Inc. received two loans totaling $2,910 from DVCI CDE XVIII, LLC, an unrelated entity. The proceeds of the loans were used to purchase the Oberlin Inn property from the College. The loans bear interest at the rate of 1.0% per annum and are payable quarterly. The loans mature December 31, 2038 with interest only payments to be paid quarterly until December 31, 2020 at which time principal and interest payments will be due in the amount of $44 per quarter. These loans are included in loans payable on the statements of financial position.

To facilitate the second Federal New Market Tax Credit structure, on September 23, 2014, the College loaned a total of $4,175 in the form of a note to Chase NMTC Oberlin Gateway Investment Fund, LLC, an unrelated entity. The note bears interest at the rate of 1.0000% per annum and is payable quarterly. The note matures September 23, 2044 with interest only payments to be paid quarterly until December 15, 2021 at which time principal and interest payments will be due in the amount of $51 per quarter. The related notes receivable balance is included in other long-term receivables on the statements of financial position.

College Properties of Northern Ohio, Inc. received two loans totaling $2,700 from CNMC SUB-CDE 48, LLC, an unrelated entity, and two loans totaling $3,395 from DVCI CDE XVI, LLC, an unrelated entity. The proceeds of the loans will be used for the Gateway Complex Project. The loans bear interest at the rate of 0.8183% per annum and are payable quarterly. The loans mature September 23, 2044 with interest only payments to be paid quarterly until December 5, 2021 at which time principal and interest payments will be due in the amount of $32 and $41 per quarter, respectively. These loans are included in loans payable on the statements of financial position.

To facilitate the third Federal New Market Tax Credit structure, on March 3, 2016, the College loaned a total of $3,530 in the form of a note to Chase NMTC Oberlin Gateway 2 Investment Fund, LLC, an unrelated entity. The note bears interest at the rate of 1.0000% per annum and is payable quarterly. The note matures March 3, 2046 with interest only payments to be paid quarterly until June 15, 2023 at which time principal and interest payments will be due in the amount of $43 per quarter. The related notes receivable balance is included in other long-term receivables on the statements of financial position.

College Properties of Northern Ohio, Inc. received two loans totaling $4,988 from Western Reserve DF Affiliate IX, LLC, an unrelated entity. The proceeds of the loans will be used for the Gateway Complex Project.

The loans bear interest at the rate of 1.2342% per annum and are payable quarterly. The loans mature March 3, 2046 with interest only payments to be paid quarterly until June 5, 2023 at which time principal and interest payments will be due in the amount of $44 and $18 per quarter, respectively. These loans are included in loans payable on the statements of financial position.

Future principal payments on the QLICI loans held by College Properties of Northern Ohio, Inc. at June 30, 2018 are as follows:

| | |
|---|---|
| 2019 | $ - |
| 2020 | - |
| 2021 | 208 |
| 2022 | 392 |
| 2023 | 537 |
| Thereafter | 12,856 |
| | $ 13,993 |

## 9. APOLLO THEATER PROJECT

During fiscal year 2012, the College finalized a tax credit funded project in connection with the rehabilitation and redevelopment of the Apollo Theater. The property is held in Apollo Theater LLC, a subsidiary of the College. The project utilized Federal and State Historic Tax credits as well as Federal New Market Tax Credit funding. This $10,300 project was substantially completed in September 2012.

To facilitate the Federal New Market Tax Credit structure, on October 14, 2011 the College loaned a total of $5,754 in the form of two notes to the Apollo Theater Investment Fund LLC, an unrelated entity. The notes bear interest at the rate of 1.0% per annum, and are payable quarterly. The notes mature October 14, 2041 with interest only payments to be paid quarterly until December 2018 and can be prepaid at any time without penalty. The related notes receivable balance of $4,440 at June 30, 2018 and 2017 is included in other long-term receivables on the statements of financial position.

The Apollo Theater LLC received two loans totaling $7,760 from a Community Development Entity, an unrelated entity. The proceeds of the loans were used to renovate the Apollo Theater. The loans bear interest at 0.6366% per annum, payable quarterly. The loans mature October 14, 2041 with interest only payments to be paid in equal quarterly installments until December 2018 at which time principal and interest payments will be due in the amount of $52 per quarter. At June 30, 2018, $225 is reflected within other current liabilities and the remainder is reflected within loans payable on the statements of financial position.

Future principal payments on the QLICI loans held by Apollo Theater LLC at June 30, 2018 are as follows:

| | |
|---|---|
| 2019 | $ 225 |
| 2020 | 316 |
| 2021 | 318 |
| 2022 | 320 |
| 2023 | 322 |
| Thereafter | 6,259 |
| | $ 7,760 |

## 10. POSTRETIREMENT BENEFITS

The College sponsors an unfunded defined benefit postretirement health care plan that covers substantially all regular status employees. The plan pays stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after a stated deductible has been met. Employees hired after June 30, 1996 become eligible to participate in the plan if they retire from the College after reaching age 52, with 10 years of service. The plan is contributory, with retiree contributions adjusted annually. In 2017, the College supplemented this existing plan with a non-contributory stipend plan, whereby retirees instead receive a retiree health stipend that is intended to be equivalent to the College's expected annual contribution to the existing plan, allowing our retirees to utilize the stipend to pay premiums toward another retiree healthcare insurance plan providing either more or less coverage.

The accounting for these postretirement healthcare benefits at June 30, 2018 anticipated future cost-sharing changes to the existing plan consistent with the College's policy stating that annual minimum retiree contributions will be set at an amount equal to 40% of the College's estimated cost before considering the contribution.

The weighted average assumptions used to determine net benefit obligation for the years ended June 30, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Discount Rate | 7.00% | 7.00% |
| Health Care Trend Rates – (Pre-65) | | |
| Trend for Next Year | 8.00% | 8.40% |
| Ultimate Trend | 4.50% | 4.50% |
| Year Ultimate Trend Reached | 2026 | 2026 |
| Health Care Trend Rates – (Post-65) | | |
| Trend for Next Year | 8.90% | 9.40% |
| Ultimate Trend | 4.50% | 4.50% |
| Year Ultimate Trend Reached | 2026 | 2026 |
| Measurement Date | June 30, 2018 | June 30, 2017 |

The effects of a one percent change in the assumed health care cost trend rate in each year are summarized as follows:

| | 2018 | 2017 |
|---|---|---|
| Effect of an increase: | | |
| On Benefit Obligation, End of Year | $ 153 | $ 177 |
| On Service Cost and Interest Cost for Year | $ 11 | $ 14 |
| Effect of a decrease: | | |
| On Benefit Obligation, End of Year | $ (147) | $ (169) |
| On Service Cost and Interest Cost for Year | $ (11) | $ (14) |

The following table reflects the change in accrued postretirement health care cost liability for the years ended June 30, 2018 and 2017:

| Change in Benefit Obligation | 2018 | 2017 |
|---|---|---|
| Benefit obligation at beginning of year | $ 21,187 | $ 20,992 |
| Service cost | 628 | 639 |
| Interest cost | 1,393 | 1,422 |
| Actuarial loss | (316) | (59) |
| Benefits paid | (2,044) | (1,807) |
| Benefit obligation at end of year | $ 20,848 | $ 21,187 |

Net periodic postretirement health care cost for the years ended June 30, 2018 and 2017 included the following components:

| Net periodic postretirement benefit cost | 2018 | 2017 |
|---|---|---|
| Service cost – benefits attributed to service during the period | $ 628 | $ 639 |
| Interest cost on accumulated postretirement benefit obligation | 1,393 | 1,422 |
| Net amortization and deferral | (196) | (196) |
| Net loss | 296 | 351 |
| Net periodic postretirement benefit cost | $ 2,121 | $ 2,216 |

The estimated future benefit claims expected to be paid in each of the next ten fiscal years are:

| | Total Claims | Medicare Reimbursement | Net Claims |
|---|---|---|---|
| 2019 | $ 2,195 | $ 397 | $ 1,798 |
| 2020 | 2,170 | 454 | 1,716 |
| 2021 | 2,157 | 509 | 1,648 |
| 2022 | 2,160 | 566 | 1,594 |
| 2023 | 2,193 | 619 | 1,574 |
| 2024-2028 | 11,338 | 2,217 | 9,121 |

Medicare reimbursements reflected above are based on the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Assuming retiree contributions of 40% to the existing plan, the College expects to contribute $1,078 toward expected net claims of $1,798 in fiscal year 2019.

**11. RETIREMENT PLAN**

The College has a contributory defined contribution retirement plan with the Teachers Insurance and Annuity Association. The College makes contributions based on a percentage of an eligible employee's earnings. Contributions for the years ended June 30, 2018 and 2017 were $7,768 and $8,406, respectively.

**12. 25-YEAR POWER PURCHASE AGREEMENT**

In May 2012, the College entered into a 25-year Power Purchase Agreement to prepay $5,572 of electric. The related prepayment balance of $4,461 and $4,651 at June 30, 2018 and 2017, respectively, is included in other non-current assets on the statements of financial position. Prepaid electric is expensed based on the actual output generated by the solar photovoltaic array.

**13. CONDITIONAL ASSET RETIREMENT OBLIGATION**

The College recognizes the costs associated with the retirement of assets, which primarily are for the future remediation and removal of asbestos from College-owned property. Such costs are not material to the College, given the dates of construction for its buildings. However, the College has recorded an accrual for these costs of approximately $2,565 and $2,530 at June 30, 2018 and 2017, respectively, within other non-current liabilities on the statements of financial position.

**14. COMMITMENTS AND CONTINGENCIES**

At June 30, 2018, the College has outstanding commitments on various construction projects totaling approximately $15,395. Of this amount, $5,271 is attributable to the Adaptable Theater Project and $3,701 is attributable to the Health/Wellness Center Project.

The College is involved in litigation and is subject to certain claims that arise in the normal course of operations. Any liabilities required to be recorded under generally accepted accounting principles are reflected within other non-current liabilities on the statements of financial position and are not material to the College's financial position. In the opinion of management, the ultimate disposition of such litigation and claims will not have a material adverse effect on the College's operations or financial position.

**15. VOLUNTARY SEPARATION INCENTIVE PLAN**

During the 2016 fiscal year, the Voluntary Separation Incentive Plan (the Plan) was offered to eligible employees as a financial incentive to voluntarily retire from the College. The purpose of the Plan was to reengineer and reduce staffing for certain functions, reassign positions to more strategic priorities of the College, provide promotional opportunities to certain early and middle career employees, and to allow the hiring of replacement staff at a lower overall cost.

All full-time employees (minimum .83 FTE) age 52 or older with a minimum of ten years of service and whose combined age and service years equaled or exceeded 75 were eligible and offered the retirement incentive. The incentive consisted of a payout based on their salary at time of separation to be paid over a 12 month period after the final separation date. Of the approximate 323 employees eligible for the Plan, 97 participated. At June 30, 2018 and 2017, $469 and $4,602 is reflected within other current liabilities, respectively, and $302 and $771 is reflected within other non-current liabilities on the statements of financial position, respectively.

During the 2018 fiscal year, a second similar offering was extended to eligible faculty. Seventeen faculty members have opted to participate. The College has recorded an accrual for these costs of approximately $1,900 at June 30, 2018 reflected as restructuring costs on the statement of activities. Of this amount, $363 is reflected within other current liabilities and the remainder within other non-current liabilities on the statements of financial position.

**16. SUBSEQUENT EVENTS**

The College has evaluated all events subsequent to the statements of financial position date of June 30, 2018 through December 20, 2018 which is the date these financial statements were available to be issued. There are no subsequent events that require disclosure.