

# OBERLIN

COLLEGE OF ARTS & SCIENCES  
CONSERVATORY OF MUSIC

## Oberlin College Financial Report

Year Ended June 30, 2012

## Table of Contents

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	<b>Page</b>
Report of the Vice President for Finance .....	1-8
Independent Auditors' Report .....	9
Statements of Financial Position .....	10-11
Statements of Activities .....	12-13
Statements of Cash Flows.....	14
Notes to Financial Statements .....	15-28

# **Oberlin College**

## **Financial Report**

**Year ended June 30, 2012**

# Financial Report

2011-2012

Ronald R. Watts, Vice President for Finance

Mark R. Bates, Associate Vice President for Finance

We are pleased to present Oberlin College's Annual Financial Report for the year ended June 30, 2012. This report includes our audit report, audited financial statements and related footnotes to the statements.

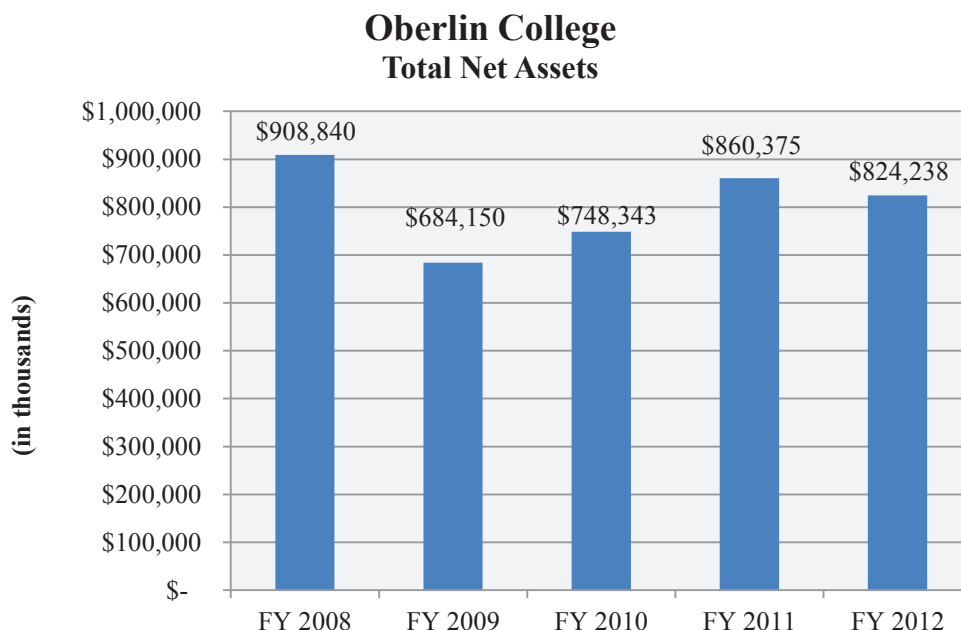
To allow the users of these financial statements to gain a better understanding of the College's financial position and operations, we are also presenting an overview of the institution's financial condition and operating results for the year. We have included comments regarding events subsequent to our fiscal year end and the effects of those events on the College and its financial position.

These statements reflect the Apollo Theater Project. This project involves the renovation of a downtown theater utilizing tax credit financing. The project costs and operational costs are being accounted for in a newly-formed subsidiary. Footnote 12 to the financial statements discusses this project and entity in greater detail.

## **FINANCIAL CONDITION**

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

Oberlin's total assets at June 30, 2012 were 1,079.4 million, a decrease of \$12.6 million, or 1.2%, from the previous fiscal year's \$1,092.0 million. Total liabilities as of June 30, 2012 were \$255.2 million, an increase of \$23.6 million from the prior year's \$231.6 million. Total net assets for the College were \$824.2 million, compared to \$860.4 million as of June 30, 2011. This represents a decrease of \$36.2 million, or 4.2%, during this fiscal year, as compared to the previous fiscal year's increase of \$112.1 million, or 15.0% increase from June 30, 2010. The following chart reflects the total net assets of Oberlin College at June 30, 2012 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 the investment returns and the spending of cumulative earnings of the College's Endowed Funds.

## **Endowed Funds**

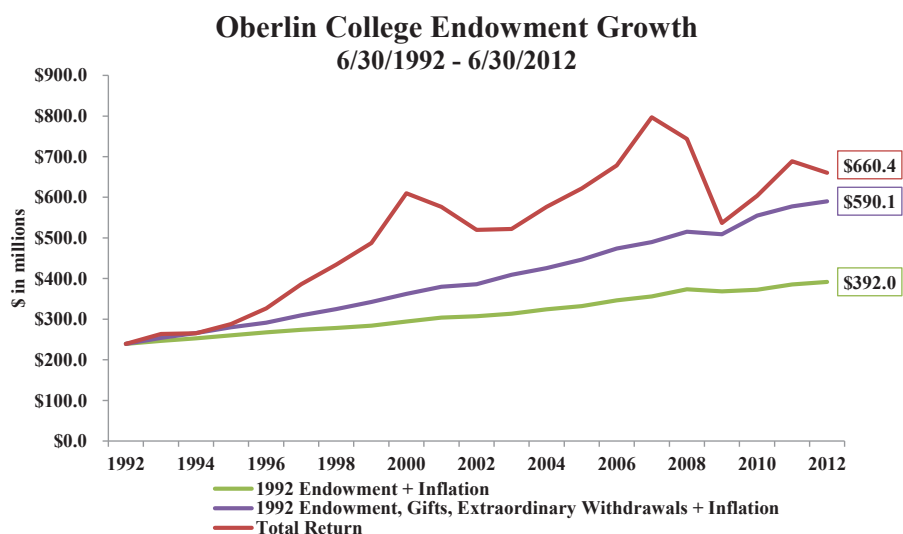
Total endowed funds as of June 30, 2012 were \$661.3 million, compared to \$689.9 million the previous year, a decrease of \$28.6 million. In comparison, total endowed funds increased by \$85.6 million in the fiscal year ended June 30, 2011, from \$604.3 million at June 30, 2010.

Like most private liberal arts schools, the endowment is the financial cornerstone of the College. Most of Oberlin's 1,550 endowed funds are invested within its General Investment Pool. The College's General Investment Pool was \$660.4 million at June 30, 2012, a decrease of \$28.5 million from the pool's \$688.9 million market value at June 30, 2011. The decline in the total value results from the distribution of cumulative investment earnings and decreasing market values of our pooled investments, offset by the many donor- and board-designated gifts received from generous alumni and friends during the fiscal year. 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 \$31.4 million. Capital and deferred gifts totaled \$15.7 million this fiscal year, of which \$8.9 million were donor-designated endowed gifts. In fiscal year 2011, capital and deferred gifts were \$9.2 million, with \$4.0 million of donor-designated endowed gifts.

Beginning with fiscal year 2011, the Investment Office outsourced much of the investment reporting function to its custodian bank. As a part of this outsourcing, the College has adopted a July 31st cut-off for the market valuation of our pooled endowment to allow the custodian to report monthly investment returns in a timely manner, though not all fund managers are able to report June 30 valuations prior to the cut-off. A market valuation of \$658.6 million was calculated using this July 31st cut-off, and this is the endowment valuation being reported by the College in external endowment surveys. Subsequent to this July 31st cut-off, the College received market valuations from other fund managers as of June 30th that increased the market value of the pool to \$660.4 million, which is reflected in our audited financial statements.

Also as a part of this outsourcing, the College has adopted a second investment return measurement, the Modified Dietz method, to supplement its existing investment return methodology used in long-range planning. The Modified Dietz method takes into consideration the timing of gifts and other additions, and also the timing of spending distributions and other withdrawals, whereas our existing investment return calculation is based solely on the beginning value for each fiscal year. In fiscal year 2012, the College's net total investment return using a market valuation of \$658.6 million and applying the Modified Dietz method was 1.0%, while our net total return based solely on beginning balance was 0.4%. This compares to a total net return in fiscal year 2011 of approximately 19.3% using the Modified Dietz method but only 18.7% using our traditional return calculation methodology.

Over the past 20 years, the General Investment Pool has grown from \$239.4 million to \$660.4 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, oil and gas 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 College's Investment Office staff regularly rebalances our portfolio allocations as directed by our Board's Investment Committee.

The following is the College's targeted endowment portfolio allocation for the year ending June 30, 2012, which was not changed from the previous year.

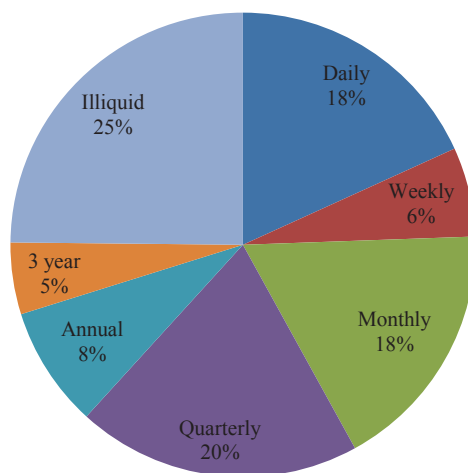
Cash	0%	
Fixed Income	15%	
<b>Total Fixed Income</b>		<b>15%</b>
U.S. Equity	10%	
International Equity	6%	
Emerging Markets Equity	4%	
<b>Total Equity</b>		<b>20%</b>
Hedge Funds	34%	
Private Equity	16%	
Real Assets	10%	
Opportunistic	5%	
<b>Total Alternative Investments</b>		<b>65%</b>
<b>Total</b>		<b>100%</b>

Actual investment balances at June 30, 2012 and 2011 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 the end of a quarter, which can result in higher than targeted levels of cash and increased investment proceeds receivable balances at June 30. Endowment investment allocations at June 30, 2011 did reflect such larger cash 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. It has also enabled us to access investment opportunities which would otherwise be unavailable. The College's Investment Office staff conducts ongoing due diligence on these investment vehicles. The following chart depicts the total investment liquidity of both our \$661.3 million endowment and \$4.5 million in cash equivalents and short-term investments at June 30, 2012.

**Total Investment Liquidity  
June 30, 2012**



## **Plant Funds**

The second largest component of the College's total net assets is net assets designated for plant facilities, or plant equity, totaling \$108.5 million (\$104.3 million previous year). Plant equity is reflected either in unrestricted net assets or temporary restricted net assets, the latter representing gifts to support investment in plant. 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 added \$26.5 million to its Property, Plant and Equipment assets in the year ended June 30, 2012. The College made many major capital expenditures during the fiscal year, most notably the completion of the renovations of the Allen Memorial Art Museum, a substantial portion of Phase II of the Apollo Theater Project, and a major renovation that was started in Bibbins Hall for benefit of our Conservatory students and staff.

## **Debt**

The College had \$168.1 million of outstanding bonded debt at June 30, 2012, as described in greater detail within Footnote 5 to the financial statements.

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.

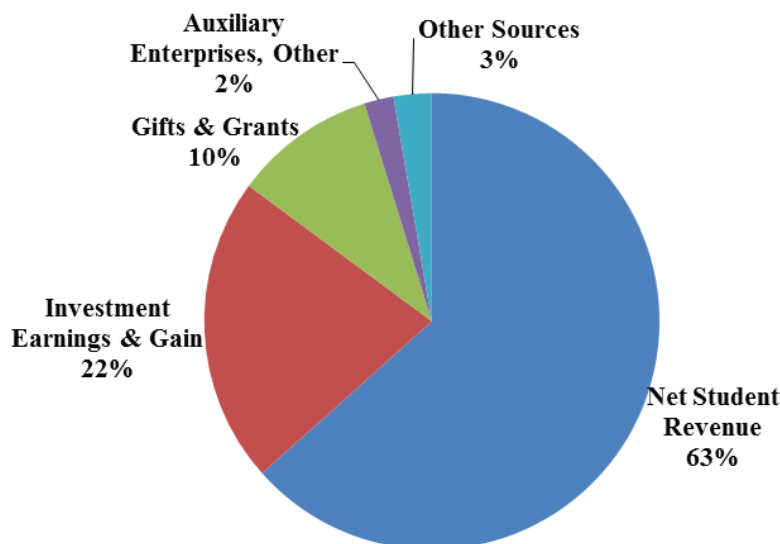
The College's derivative transactions are described within Footnote 6 to the financial statements. In summary, during the fiscal year 2006, Oberlin entered into three derivative transactions: a basis swap involving taxable and tax exempt variable interest rates and two variable-to-fixed interest rate swaps. In fiscal year 2008 the College entered into a fourth derivative transaction (our third variable to fixed interest rate swap). These swaps have been used to limit the 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. Further, these swaps have allowed the College to enjoy a synthetically fixed cost of capital rate of less than 4% on its outstanding bonds. In fiscal year 2010, the College terminated two of the interest rate swaps, resulting in a gain on termination of \$1.6 million.

## **OPERATING RESULTS – FISCAL YEAR 2012**

### **Operating Revenues**

Oberlin's total operating revenues were \$158.8 million for the year ended June 30, 2012 as compared to last year's \$156.7 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.

**Oberlin College**  
**Operating Revenue by Source**  
**Fiscal Year Ended June 30, 2012**



Net student income, comprising tuition and fees, room and board, net of student financial aid, is the largest component of Oberlin's unrestricted operating revenues, totaling \$99.5 million in the current year versus \$94.5 million the previous year, an increase of approximately 5.3%. Though student enrollment was slightly higher than in the previous fiscal year, the increase in net student revenue was substantially driven by increases in tuition, room and board rates, which increased by approximately 3.9%, 4.9% and 4.9%, respectively, and the moderate increase in total student financial aid, which increased by only 1.9% from \$51,909 to \$52,619. As such, our discount rate for June 30, 2012 decreased slightly from 43.3% last year to 42.5% this year (calculated as the percentage of total student aid to total unrestricted tuition and fees).

Endowment earnings used in support of unrestricted operations is the second largest component of the College's unrestricted operating revenues. In fiscal year 2012, \$13.7 million of unrestricted operating support was provided in accordance with the endowment spending policy approved by the Board of Trustees, whereas in fiscal 2011 approximately \$15.1 million of support was provided. This decrease of \$1.4 million, or 9.5%, was commensurate with the overall decrease in the endowment spending. 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 release earnings at a sustainable rate over the long term while seeking to provide predictability and stability of endowment spending essential for long range planning.

For fiscal year 2012, the College also distributed \$20.8 million from endowment to support restricted operations. The total operating distribution of \$34.5 million equates to a spending rate of 5.5% of the 36-month weighted average of our general investment pool and 5.0% of the beginning market value. This compares to \$36.2 million distributed in fiscal 2011, which equated to a spending rate of 5.6% of the 36-month weighted average, and 6.0% 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.

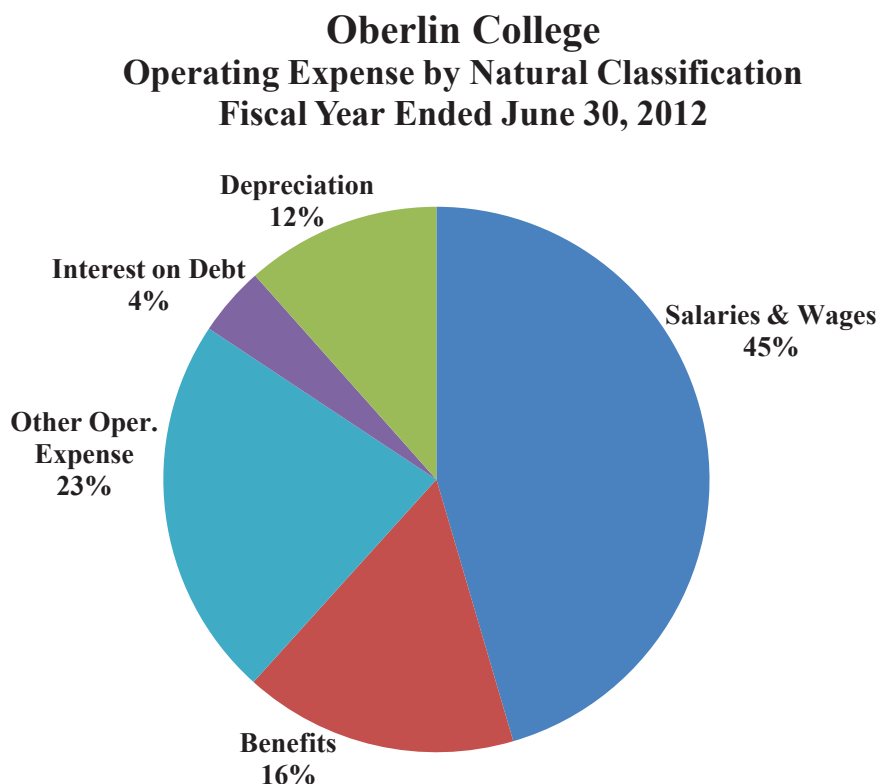
Oberlin's third largest component of unrestricted operating revenues is support from unrestricted Private Gifts and Grants. The timing of the receipt of bequests is unpredictable, and the varying size of such bequests can cause fluctuations in giving from year to year, as depicted in this chart (dollars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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Undesignated Bequests	\$ 2,285	\$ 1,999	\$ 1,211	\$ 1,789	\$ 1,351
Unrestricted Giving	<u>2,652</u>	<u>2,450</u>	<u>3,259</u>	<u>3,982</u>	<u>3,556</u>
Total	\$ 4,937	\$ 4,449	\$ 4,470	\$ 5,771	\$ 4,907

## **Operating Expenses**

Oberlin's operating expenses totaled \$161.1 million for the year ended June 30, 2012, an increase of \$8.0 million over the prior year, or 5.2%. Like our peers, Oberlin College's expenses tend to increase at rates which exceed traditional price indices, such as the Consumer Price Index, or "CPI". This occurs because our costs are more heavily weighted toward salaries, benefits and energy than the average consumer. The Higher Education Price Index (HEPI), as reported by the Commonfund Institute, tends to be a more accurate indicator of cost changes for colleges and universities than the CPI. In the previous ten-year period, HEPI has tended to average approximately 1.0-1.5% higher than CPI.

While the audited financial statements present operating expenses by program, as required by accounting and reporting standards, the chart below reflects the fiscal year 2012 operating expenses by natural classification, or function, to enable greater analysis of expenses and spending trends.

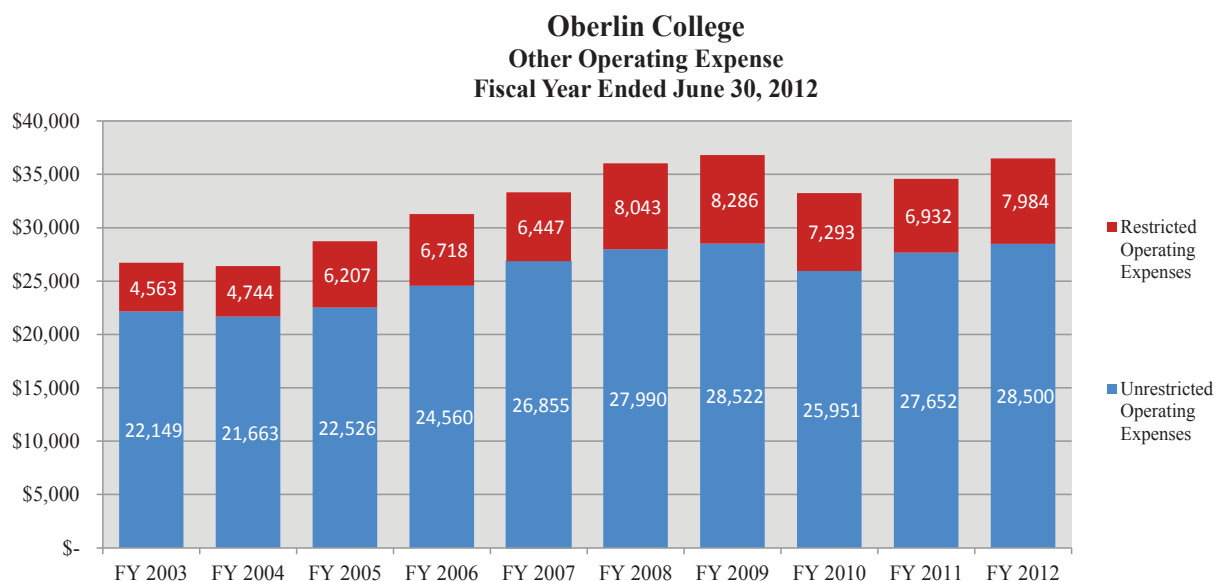


Salaries and wages are by far our largest component of operating expense, totaling approximately \$73.2 million in fiscal year 2012. This represents an increase of 3.8% over the fiscal year 2011 total of \$70.5 million. The College's Faculty and Administrative & Professional Staff collectively received raises of 2% for this fiscal year, and bargaining unit employees received contractual raises of approximately 2%. However, student wages increased by \$0.3 million (10%) over the previous year, and salaries funded by restricted dollars also increased by \$0.3 million.

Other operating expense, which includes utilities expense and food costs, is our second largest spending component, totaling approximately \$36.5 million in fiscal year 2012. This represents an increase of 5.8% from the fiscal year 2011 total of \$34.5 million, as compared to the 3.9% increase experienced the previous fiscal year. The fiscal year 2012 increase is primarily due increased spending from restricted funds in response to continued tight budgeting constraints as well as inflation on our unrestricted operating expenses. The prices of food and energy are entirely dependent on market factors, as we must continue to feed our students and heat our buildings regardless of costs. However, we work closely with our strategic partners to manage these costs despite inflationary pressure.



As depicted below, the College aggressively reduced its Other Operating spending from fiscal 2002 levels during fiscal years 2003 and 2004, by -4.0% and -1.2%, respectively, and subsequently has utilized tight budget policies to maintain control over unrestricted operating expenses. As such, total fiscal year 2012 Other Operating spending, inclusive of restricted spending and food and energy costs, represents a modest 2.6% compounded rate of increase over the last ten years.



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 plan for both active employees and retirees, totaled \$26.1 million in fiscal year 2012 as compared to \$24.7 million in fiscal year 2011. Contributions to the 403(b) plan are directly proportional to increases in salaries and wages. Only minor changes have been made to the design of this benefit in a number of years, such that contribution increases are almost entirely due to increases in salaries and wages. During fiscal year 2012, health plan expense for the College increased at a rate higher than national trend rates. The cost of health care continues to increase annually at trend rates of 8-10%, before consideration of plan design changes or adjustments to employee premiums. However, in fiscal year 2012, we experienced higher levels of catastrophic health claims than in recent years. Though we do carry stop loss insurance coverage to help mitigate the exposure to large individual claims, the quantity of those types of claims can have a significant impact on the total cost of the health care benefit provided by the college.

## **LOOKING AHEAD – FISCAL YEAR 2013**

### **Enrollment**

First-year enrollment statistics are reflected in the chart at the top of the next page. Arts & Sciences applications declined slightly from the previous year, following 13 consecutive years of increasing applications, while the Conservatory of Music set a new record. Admit rates and yields for both divisions were in line with recent years, and in line with expectations. This allowed us to enroll one of our strongest classes ever, including 45 double-degree students, the second largest ever.

		<u>Applications</u>	<u>% Admitted</u>	<u>Yield</u>
College of A&S	Fall 2012	5,842	34%	34%
	Fall 2011	6,117	32%	33%
	Fall 2010	6,014	33%	35%
	Fall 2009	5,939	37%	32%
	Fall 2008	5,778	36%	33%
Conservatory	Fall 2012	1,330	28%	38%
	Fall 2011	1,277	27%	40%
	Fall 2010	1,208	25%	40%
	Fall 2009	1,287	26%	42%
	Fall 2008	1,227	25%	41%

Enrollment data for our returning classes continues to be strong. Retention rates are in line with projections, such that we achieved our exact planned headcount for Fall 2012 of 2,930 students.

### **Capital Campaign**

In September, the College launched the public phase of a new capital campaign, "Oberlin Illuminate", with a target goal of \$250 million. Oberlin Illuminate aims to broaden access to an Oberlin education, strengthen the campus community, enrich the academic program, make Oberlin more competitive, and better position our students for success after they graduate. The private phase of the campaign has been very successful, raising \$143 million to date. More than 30 gifts of \$1 million or more have generated in excess of \$80 million, surpassing gifts of this size during the entire duration of Oberlin's last campaign that ended in 2004. The current seven-year campaign is scheduled to conclude in 2016.

### **Endowment Increase**

Overall, our endowment has fared quite well through these difficult times. Subsequent to June 30, 2012, investment performance of our endowed investment pool has continued to be positive, as the market value has increased from \$660 million to approximately \$679 million on September 30, 2012. Despite the rebound from fiscal year 2009's \$537.3 million, valuations remain much lower than our endowment values in fiscal years 2007 and 2008, and thus the College has maintained a tight budget belt, as reflected in a more restrictive spending guidelines, for fiscal year 2013 and beyond.

### **Bond Agency Ratings**

We are pleased to note that Oberlin continues to have strong bond ratings with the bond rating agencies. Oberlin College's rating with Moody's is Aa2, and Standard & Poor's rates Oberlin at AA, both reaffirmed within the last 18 months. Each of these ratings is the second highest rating available from each agency, and reflects our ongoing efforts to manage the College during these tough economic times. Our bond ratings are well received within the financial markets, allowing Oberlin College to obtain the best possible interest rates on its bond issuances.

### **SUMMARY**

We continue to carefully manage our finances during this financial recovery and ongoing Endowment rebound from the decline we experienced in 2008 and 2009. To address investment and financial risk in the market, we have maintained liquidity as reflected in the liquidity chart found on page 3. It is essential for Oberlin's long-term financial sustainability that we structure our operating budgets to incorporate reduced levels of endowment distributions for the foreseeable future. As such, Oberlin's Board of Trustees approved an endowment distribution to support operations in the amount of \$33.3 million for fiscal year 2013, a reduction of approximately \$1.2 million from the actual fiscal year 2012 distribution of \$34.5 million. By comparison, such distributions were \$40.1 million, \$36.3 million and \$36.2 million in fiscal years 2009, 2010 and 2011, respectively. In order to incorporate these reduced levels of distribution into our long-range plans, we must continue to maintain financial discipline in the years ahead.

Board of Trustees  
Oberlin College  
Oberlin, Ohio

### Independent Auditors' Report

We have audited the accompanying statements of financial position of Oberlin College as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Oberlin College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Oberlin College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oberlin College as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Maloney + Novotny LLC*

Cleveland, Ohio  
December 6, 2012

# Oberlin College

## Statements of Financial Position

As of June 30, 2012 and 2011

(dollars in thousands)

	2012	2011
<b><u>ASSETS</u></b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 16,074	\$ 15,368
Short-term investments	58	749
Accounts receivable, net	2,148	1,438
Pledges	6,648	11,185
Other current assets	4,005	4,683
<b>Total current assets</b>	<b>\$ 28,933</b>	<b>\$ 33,423</b>
<b>Long-Term Receivables</b>		
Pledges, net	\$ 23,964	\$ 20,829
Student loans, net	12,327	12,114
Other long-term receivables	5,754	
<b>Total long-term receivables</b>	<b>\$ 42,045</b>	<b>\$ 32,943</b>
<b>Long-Term Investments</b>		
Assets restricted to investment in land, buildings and equipment	\$ 13,580	\$ 8,486
Endowment funds	661,332	689,881
Annuity and life income funds	31,847	32,580
Funds held in trust by others	15,059	15,896
<b>Total long-term investments</b>	<b>\$ 721,818</b>	<b>\$ 746,843</b>
<b>Property, Plant and Equipment</b>		
Land, buildings and equipment	\$ 558,123	\$ 523,969
Construction in progress	4,333	12,013
Less: accumulated depreciation	(275,822)	(257,205)
<b>Total property, plant and equipment</b>	<b>\$ 286,634</b>	<b>\$ 278,777</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,079,430</b>	<b>\$ 1,091,986</b>

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

# Oberlin College

## Statements of Financial Position

As of June 30, 2012 and 2011

(dollars in thousands)

	2012	2011
<b><u>LIABILITIES and NET ASSETS</u></b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 5,776	\$ 5,753
Current portion of bonds payable	3,055	2,900
Deposits and agency funds	2,008	2,155
Other current liabilities	12,594	3,392
<b>Total current liabilities</b>	<b>\$ 23,433</b>	<b>\$ 14,200</b>
<b>Other Liabilities</b>		
Accrued postretirement benefit obligation	16,438	14,458
Annuity obligations	13,810	13,950
Federal student loan funds	6,278	6,278
Loans payable	7,760	
Other non-current liabilities	22,407	13,221
Bonds payable, net	165,066	169,504
<b>Total liabilities</b>	<b>\$ 255,192</b>	<b>\$ 231,611</b>
<b>Net Assets</b>		
<b>Unrestricted -</b>		
Current operations	\$ (9,675)	\$ (5,940)
Non-operating	(14,729)	(5,971)
Designated for specific purposes	5,701	5,740
Plant and facility funds	45,363	41,743
Board-designated endowment funds	236,877	261,745
<b>Total unrestricted</b>	<b>\$ 263,537</b>	<b>\$ 297,317</b>
<b>Temporarily Restricted -</b>		
Donor designated for specific purposes	\$ 30,084	\$ 27,278
Annuity and life income funds	7,126	7,463
Unexpended plant and facility funds	14,771	15,042
Unamortized contributions for long-lived assets	48,504	47,566
Endowment funds	218,554	231,153
<b>Total temporarily restricted</b>	<b>\$ 319,039</b>	<b>\$ 328,502</b>
<b>Permanently Restricted -</b>		
Student loan funds	\$ 4,406	\$ 4,154
Annuity and life income funds	5,209	5,381
Funds held in trust by others	15,059	15,896
Endowment funds	216,988	209,125
<b>Total permanently restricted</b>	<b>\$ 241,662</b>	<b>\$ 234,556</b>
<b>Total net assets</b>	<b>\$ 824,238</b>	<b>\$ 860,375</b>
<b>TOTAL LIABILITIES and NET ASSETS</b>	<b>\$ 1,079,430</b>	<b>\$ 1,091,986</b>

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

**Oberlin College**  
**Statement of Activities**  
**For the year ended June 30, 2012**  
**(dollars in thousands)**

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenues</b>				
Tuition and fees	\$ 123,841	\$ 1,181		\$ 125,022
Room and board	28,300			28,300
Student aid	(52,619)			(52,619)
Net student income	99,522	1,181		100,703
Auxiliary services, other	3,318			3,318
Government grants and contributions		2,390		2,390
Private gifts and grants	4,907	8,728		13,635
Investment earnings	13,669	20,115	\$ 718	34,502
Other sources	3,828	471		4,299
Net assets released from restrictions	34,776	(34,776)		
<b>Total operating revenues</b>	<b>\$ 160,020</b>	<b>\$ (1,891)</b>	<b>\$ 718</b>	<b>\$ 158,847</b>
<b>Operating Expenses</b>				
Instruction	\$ 75,257			\$ 75,257
Research	1,025			1,025
Academic support	20,537			20,537
Student services	13,120			13,120
Institutional support	23,980			23,980
Auxiliary services, student and other	27,194			27,194
<b>Total operating expenses</b>	<b>\$ 161,113</b>			<b>\$ 161,113</b>
<b>Change in net assets from operating activities</b>	<b>\$ (1,093)</b>	<b>\$ (1,891)</b>	<b>\$ 718</b>	<b>\$ (2,266)</b>
<b>Non-operating Activities</b>				
Investment earnings	\$ (1,020)	\$ (1,771)	\$ 296	\$ (2,495)
Unrealized losses	(13,506)	(17,536)	(805)	(31,847)
Capital and deferred gifts	1,703	4,493	9,509	15,705
Pledges	(851)	503	(1,055)	(1,403)
Change in annuity obligations	(298)	350	88	140
Payments to beneficiaries	(1,098)	(151)	(563)	(1,812)
Post-retirement benefit obligation adjustment	(1,808)			(1,808)
Change in fair value of swap contracts	(8,749)			(8,749)
Redesignated funds and other	(7,060)	6,540	(1,082)	(1,602)
<b>Change in net assets from non-operating activities</b>	<b>\$ (32,687)</b>	<b>\$ (7,572)</b>	<b>\$ 6,388</b>	<b>\$ (33,871)</b>
Change in net assets	(33,780)	(9,463)	7,106	(36,137)
Net assets at beginning of year	\$ 297,317	\$ 328,502	\$ 234,556	\$ 860,375
<b>Net assets at end of year</b>	<b>\$ 263,537</b>	<b>\$ 319,039</b>	<b>\$ 241,662</b>	<b>\$ 824,238</b>

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

**Oberlin College**  
**Statement of Activities**  
**For the year ended June 30, 2011**  
**(dollars in thousands)**

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenues</b>				
Tuition and fees	\$ 119,876	\$ 1,100		\$ 120,976
Room and board	26,572			26,572
Student aid	(51,909)			(51,909)
Net student income	94,539	1,100		95,639
Auxiliary services, other	4,076			4,076
Government grants and contributions		2,316		2,316
Private gifts and grants	5,771	9,110		14,881
Investment earnings	15,105	21,144	\$ 643	36,892
Other sources	2,685	203		2,888
Net assets released from restrictions	31,350	(31,350)		
<b>Total operating revenues</b>	<b>\$ 153,526</b>	<b>\$ 2,523</b>	<b>\$ 643</b>	<b>\$ 156,692</b>
<b>Operating Expenses</b>				
Instruction	\$ 71,416			\$ 71,416
Research	1,041			1,041
Academic support	19,770			19,770
Student services	13,036			13,036
Institutional support	22,001			22,001
Auxiliary services, student and other	25,834			25,834
<b>Total operating expenses</b>	<b>\$ 153,098</b>			<b>\$ 153,098</b>
<b>Change in net assets from operating activities</b>	<b>\$ 428</b>	<b>\$ 2,523</b>	<b>\$ 643</b>	<b>\$ 3,594</b>
<b>Non-operating Activities</b>				
Investment earnings	\$ 28,133	\$ 38,054	\$ 1,187	\$ 67,374
Unrealized gains	8,910	11,945	3,628	24,483
Capital and deferred gifts	885	2,790	5,569	9,244
Pledges	2,845	(159)	6,655	9,341
Change in annuity obligations	(105)	(639)	(1,027)	(1,771)
Payments to beneficiaries	(515)	(724)	(529)	(1,768)
Post-retirement benefit obligation adjustment	(529)			(529)
Change in fair value of swap contracts	2,756			2,756
Redesignated funds and other	(3,806)	3,159	(45)	(692)
<b>Change in net assets from non-operating activities</b>	<b>\$ 38,574</b>	<b>\$ 54,426</b>	<b>\$ 15,438</b>	<b>\$ 108,438</b>
Change in net assets	39,002	56,949	16,081	112,032
Net assets at beginning of year	\$ 258,315	\$ 271,553	\$ 218,475	\$ 748,343
<b>Net assets at end of year</b>	<b>\$ 297,317</b>	<b>\$ 328,502</b>	<b>\$ 234,556</b>	<b>\$ 860,375</b>

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

**Oberlin College**  
**Statements of Cash Flows**  
**For the years ended June 30, 2012 and 2011**  
**(dollars in thousands)**

	<b>2012</b>	<b>2011</b>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (36,137)	\$ 112,032
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	18,618	17,315
Changes in assets and liabilities that provide (use) cash:		
Accounts receivable	(710)	252
Other current assets	678	568
Pledges receivable	1,402	(9,341)
Accounts payable, accrued expenses and other liabilities	9,411	(6,922)
Deposits and agency funds	(147)	(1,497)
Accrued postretirement benefit obligation	1,980	685
Net adjustment of annuity obligations	(140)	1,771
Contributions restricted for long-term investments	(14,974)	(8,960)
Earnings restricted for long-term investment	(193)	(5,458)
Net realized and unrealized losses (gains) on long-term investments	5,743	(126,113)
Net cash used for operating activities	<u>\$ (14,469)</u>	<u>\$ (25,668)</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of plant and equipment, net	\$ (26,474)	\$ (30,882)
Proceeds from student loans collected	1,112	1,881
Student loans issued, net	(1,325)	(2,179)
Decrease (increase) in short-term investments	691	(76)
Increase in other long-term receivables	(5,754)	
Purchases of investments	(135,874)	(587,757)
Proceeds from sales and maturities of investments	155,156	638,121
Net cash (used for) provided by investing activities	<u>\$ (12,468)</u>	<u>\$ 19,108</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from contributions for:		
Investment in endowment	\$ 8,267	\$ 4,011
Investment in long-lived assets	4,678	2,827
Investment in life income agreements	2,029	2,122
Earnings restricted for long-term investment	193	5,458
Payments on long-term debt	(4,284)	(4,148)
Proceeds from short-term debt	9,000	
Proceeds from issuance of long-term debt	7,760	
Net cash provided by financing activities	<u>\$ 27,643</u>	<u>\$ 10,270</u>
Net increase in cash and cash equivalents	\$ 706	\$ 3,710
Cash and cash equivalents, beginning of year	<u>15,368</u>	<u>11,658</u>
Cash and cash equivalents, end of year	<u><u>\$ 16,074</u></u>	<u><u>\$ 15,368</u></u>

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



# Oberlin College

## Notes to Financial Statements

June 30, 2012 and 2011

(dollars in thousands)

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### 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 operational activities of the Apollo Theater Project, with elimination of inter-company transactions and balances. In accordance with the existence or absence of donor-imposed restrictions, fund balances and transactions are grouped into three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

<u>Fund Group</u>	<u>Net Asset Group</u>
Unrestricted current funds	Unrestricted
Restricted current funds	Temporarily restricted
Annuity and life income fund	Unrestricted, temporarily restricted and permanently restricted
Long-term investments	Unrestricted, temporarily restricted and permanently restricted
Plant funds	Unrestricted and temporarily restricted
Loan funds	Permanently restricted

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:

Unrestricted net assets - 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.

Temporarily restricted net assets - 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.

Permanently restricted net assets - 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 percent at June 30, 2012 and 2011). 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, 2012 and 2011. Fundraising expenses of approximately \$6,039 and \$5,659 are reflected within institutional support in the statement of activities for the years ended June 30, 2012 and 2011, 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. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Uses inputs other than Level 1 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 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data.

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 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, 2012 and 2011. 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. The table does not include cash on hand or other assets and liabilities that are measured at historical cost or any basis other than fair value.

<b>June 30, 2012</b>				
<b>ASSETS</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Long-Term Investments				
Cash/Cash Equivalents	\$ 2,221			\$ 2,221
Emerging Markets Equity	41,238	\$ 6,246		47,484
Fixed Income	7,496	49,095		56,591
Hedge Funds	10,913		\$ 210,679	221,592
International Equity	3,082	26,647		29,729
Private Equity	358		115,311	115,669
Real Assets	15,194	10,521	37,405	63,120
U.S. Equity	64,994	46,430	13,503	124,927
Interests in gift annuities and trusts	13,804		18,042	31,846
Interests in funds held in trust by others	-		15,059	15,059
Investments restricted for plant facilities	13,580			13,580
<b>TOTAL</b>	<b>\$ 172,880</b>	<b>\$ 138,939</b>	<b>\$ 409,999</b>	<b>\$ 721,818</b>
<b>LIABILITIES</b>				
Interest rate swaps		(14,729)		(14,729)
<b>TOTAL</b>	<b>\$</b>	<b>\$ (14,729)</b>	<b>\$</b>	<b>\$ (14,729)</b>

<b>June 30, 2011</b>				
<b>ASSETS</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Long-Term Investments				
Cash/Cash Equivalents	\$ 29,356			\$ 29,356
Emerging Markets Equity	30,912	\$ 6,866		37,778
Fixed Income	274	33,877		34,151
Hedge Funds	2,048		\$ 233,338	235,386
International Equity	19,086	24,769		43,855
Private Equity			112,712	112,712
Real Assets	15,938	11,875	32,029	59,842
U.S. Equity	80,076	56,725		136,801
Interests in gift annuities and trusts	13,664		18,916	32,580
Interests in funds held in trust by others			15,896	15,896
Investments restricted for plant facilities	8,486			8,486
<b>TOTAL</b>	<b>\$ 199,840</b>	<b>\$ 134,112</b>	<b>\$ 412,891</b>	<b>\$ 746,843</b>
<b>LIABILITIES</b>				
Interest rate swaps		(5,971)		(5,971)
<b>TOTAL</b>	<b>\$</b>	<b>\$ (5,971)</b>	<b>\$</b>	<b>\$ (5,971)</b>

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

	Balance at 6/30/11	Contributions	Withdrawals	Change in MV	Balance at 6/30/12
Hedge Funds	\$ 233,338	\$ 12,000	\$ (38,951)	\$ 4,292	\$ 210,679
Private Equity	112,712	24,892	(24,236)	1,943	115,311
Real Assets	32,029	9,487	(1,634)	(2,477)	37,405
U.S. Equity		12,493		1,010	13,503
Interests in Gift Annuities and Trusts	18,916	565	(1,045)	(394)	18,042
Interests in Funds Held in Trust by Others	15,896		(282)	(555)	15,059
<b>TOTAL</b>	<b>\$ 412,891</b>	<b>\$ 59,437</b>	<b>\$ (66,148)</b>	<b>\$ 3,819</b>	<b>\$ 409,999</b>

	Balance at 6/30/10	Contributions	Withdrawals	Change in MV	Balance at 6/30/11
Hedge Funds	\$ 198,790	\$ 78,000	\$ (67,264)	\$ 23,812	\$ 233,338
Private Equity	97,792	12,179	(25,441)	28,182	112,712
Real Assets	29,306	3,755	(15,506)	14,474	32,029
Interests in Gift Annuities and Trusts	15,722	1,105	(482)	2,571	18,916
Interests in Funds Held in Trust by Others	13,596		(112)	2,412	15,896
<b>TOTAL</b>	<b>\$ 355,206</b>	<b>\$ 95,039</b>	<b>\$ (108,805)</b>	<b>\$ 71,451</b>	<b>\$ 412,891</b>

### Long-Term Investments

The College classifies its investments into the following categories:

**Fixed Income** - Fixed income investments include investments in government securities and corporate bonds via separate accounts, limited partnerships and co-mingled vehicles.

**U.S. Equity, International Equity, 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 and co-mingled vehicles which invest primarily in public equity securities.

**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.

**Private Equity** - Private equity investments include venture capital, buyouts and distressed debt. The College diversifies these investments by geography and sectors.

**Real Assets** - Real assets include real estate, energy, commodities, Treasury Inflation-Protected Securities (TIPS) and Real Estate Investment Trusts (REITs). Real asset investments are made both via liquid public markets (TIPS, REITs, natural resource equities and commodities) and via illiquid private equity structured funds (private real estate and private energy).

**Cash and Cash Equivalents** - The College invests in cash and cash equivalents, short-term investments and other securities with quoted prices in active markets.

**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.

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 co-mingled 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, 2012, the following liquidity characteristics applied to the College's endowment and board-designated endowment funds:

<u>Liquid within</u>	<u>% of Endowment</u>
1 year	70%
3 years	5%
Illiquid	25%

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.

## **Inventories**

Inventories (included in other current assets) are stated at the lower of cost (first-in, first-out) or market.

## **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 percent at June 30, 2012 and 2011.

## **Depreciation**

Depreciation of the property, plant and equipment owned by the College 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, 2012 and 2011 was:

	2012	2011
Educational and general properties	\$ 12,256	\$ 11,607
Library books and materials	2,019	1,960
Auxiliary properties	4,343	3,748
	<u>\$ 18,618</u>	<u>\$ 17,315</u>

## **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 \$8,763 in 2012 and \$7,740 in 2011. Included in these amounts are \$0 and \$814 of capitalized interest, respectively. Interest expense was \$6,631 and \$6,005 for years ended June 30, 2012 and 2011, respectively.

## **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, 2012, the College's income tax years from 2008 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

## Reclassification

Certain June 30, 2011 data have been reclassified to conform with the June 30, 2012 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, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Assets, 7/1/11	\$ 261,745	\$ 230,773	\$ 196,404	\$ 688,922
Realized Gains	12,206	15,523		27,729
Unrealized Losses	(13,223)	(17,224)		(30,447)
Investment Return	\$ (1,017)	\$ (1,701)	\$	\$ (2,718)
Contributions, net	(10,182)	6,803	8,909	5,530
Endowment distributions	(13,669)	(17,687)		(31,356)
Endowment Assets, 6/30/12	<u>\$ 236,877</u>	<u>\$ 218,188</u>	<u>\$ 205,313</u>	<u>\$ 660,378</u>

The following table reflects the College's change in endowment assets for the year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Assets, 7/1/10	\$ 231,967	\$ 180,647	\$ 190,823	\$ 603,437
Realized Gains	41,567	58,079		99,646
Unrealized Gains	7,420	9,841		17,261
Investment Return	\$ 48,987	\$ 67,920	\$	\$ 116,907
Contributions, net	(4,459)	2,820	5,581	3,942
Endowment distributions	(14,750)	(20,614)		(35,364)
Endowment Assets, 6/30/11	<u>\$ 261,745</u>	<u>\$ 230,773</u>	<u>\$ 196,404</u>	<u>\$ 688,922</u>

### 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 market value based on the last trade price. Investments in real estate are stated at appraised market value, with certain real estate investments stated at cost on the date of acquisition (or fair market value at date of receipt, if gifted). The College holds investment securities which 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 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. A significant portion of the College's investment allocation to alternative investments contains securities for which there is no ready market as of June 30, 2012. As most of the investment managers for these investments report their audited financial information only as of December 31<sup>st</sup> of each calendar year, these investments (\$363,395 and \$378,079 at June 30, 2012 and 2011, 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. Though the college performs extensive due diligence on these investments, meets with the investment managers regularly and prepares roll-forwards of December 31 valuations to June 30, the estimated fair value is subject to uncertainty and therefore, may differ significantly from values that would have been used had a ready market for these investments existed. Such difference could be material.

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. The endowment maximum loss exposure for purchased contracts is the notional value of the contracts. These financial instruments are valued at their notional exposure, net of leverage, as reflected in the following table (summarized by investment asset class):

	Notional Value	Fair Value, Net of Leverage
Equity Futures	\$ 74,530	\$ 25,748
Fixed income futures	6,819	6,795
International equity futures	14,703	13,850
Totals	<u>\$ 96,052</u>	<u>\$ 46,393</u>

Net realized and unrealized gains (losses) in market value of investments are reflected in the statement of activities. The College has committed to make \$103,831 and \$58,043 of additional investments at June 30, 2012 and 2011, 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, 2012		June 30, 2011	
	Book Value	Market Value	Book Value	Market Value
<b>GENERAL INVESTMENT POOL</b>				
Cash and Cash Equivalents	\$ 2,185	\$ 2,185	\$ 29,284	\$ 29,284
Emerging Markets	51,992	47,484	36,707	37,778
Fixed Income	54,036	56,316	32,318	33,877
Hedge Funds	183,102	221,592	179,697	235,386
International Equity	15,623	29,705	31,112	43,835
Private Equity	128,255	115,669	119,015	112,712
Real Assets	60,799	63,120	52,355	59,842
U.S. Equity	103,122	124,307	116,724	136,208
Total General Investment Pool	\$ 599,114	\$ 660,378	\$ 597,212	\$ 688,922
<b>Non Pooled Endowment</b>				
Cash & Cash Equivalents	\$ 35	\$ 35	\$ 71	\$ 71
Fixed Income	258	275	258	274
International Equity	27	24	16	20
US Equity	269	620	235	594
Total Separately Invested Funds	\$ 589	\$ 954	\$ 580	\$ 959
<b>TOTAL ENDOWMENT</b>	<b>\$ 599,703</b>	<b>\$ 661,332</b>	<b>\$ 597,792</b>	<b>\$ 689,881</b>
<b>ANNUITY AND LIFE INCOME FUNDS</b>				
<b>Pooled Income Fund Trusts</b>				
Cash & Cash Equivalents	\$ 113	\$ 113	\$ 86	\$ 86
Emerging Markets			5	13
Fixed Income	1,253	1,358	1,522	1,602
International Equity	160	166	204	246
Real Assets	335	327	390	387
U.S. Equity	406	461	564	651
Total Pooled Income Fund Trusts	\$ 2,267	\$ 2,425	\$ 2,771	\$ 2,985
<b>Gift Annuity Pool</b>				
Cash & Cash Equivalents	\$ 192	\$ 192	\$ 360	\$ 360
Emerging Markets	577	657	245	411
Fixed Income	3,517	3,761	3,439	3,656
International Equity	2,092	2,218	1,778	2,238
Real Assets	1,534	1,883	1,405	1,759
U.S. Equity	3,938	5,093	4,044	5,240
Total Gift Annuity Pool	\$ 11,850	\$ 13,804	\$ 11,271	\$ 13,664
<b>Annuity Trusts And Unitrusts</b>				
Cash & Cash Equivalents	\$ 147	\$ 147	\$ 512	\$ 512
Emerging Markets	624	686	287	439
Fixed Income	3,871	4,202	4,141	4,362
International Equity	2,498	2,377	2,350	2,498
Real Assets	2,762	2,785	2,111	2,150
U.S. Equity	4,708	5,421	5,187	5,970
Total Separately Invested Funds	\$ 14,610	\$ 15,618	\$ 14,588	\$ 15,931
<b>TOTAL ANNUITY &amp; TRUSTS</b>	<b>\$ 28,727</b>	<b>\$ 31,847</b>	<b>\$ 28,630</b>	<b>\$ 32,580</b>
<b>RESTRICTED FOR PLANT FACILITIES</b>				
Cash & Cash Equivalents	\$ 7,490	\$ 7,490	\$ 299	\$ 299
Fixed Income	23	22	826	826
Real Assets	6,068	6,068	7,361	7,361
<b>TOTAL RESTRICTED FOR PLANT FACILITIES</b>	<b>\$ 13,581</b>	<b>\$ 13,580</b>	<b>\$ 8,486</b>	<b>\$ 8,486</b>
<b>FUNDS HELD IN TRUST BY OTHERS</b>	<b>\$ 13,733</b>	<b>\$ 15,059</b>	<b>\$ 14,014</b>	<b>\$ 15,896</b>
<b>TOTAL ASSETS FOR LONG-TERM INVESTMENT</b>	<b>\$ 655,744</b>	<b>\$ 721,818</b>	<b>\$ 648,922</b>	<b>\$ 746,843</b>

### 3. STUDENT LOANS

Student loans receivable are carried at face value, less an allowance for doubtful accounts of \$1,270 and \$1,271 at June 30, 2012 and 2011. The interest rate on federal student financial aid was 5% for the year ended June 30, 2012 and 2011. 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.

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

	2012	2011
In one year or less	\$ 6,648	\$ 11,185
Between one year and five years	24,733	17,278
Greater than five years	7,847	11,589
Less discount	(8,616)	(8,038)
	<u>\$ 30,612</u>	<u>\$ 32,014</u>

### 5. BONDS PAYABLE

Bonds payable, net of bond premium and bond discount, at June 30, 2012 and 2011 consisted of the following:

Ohio Higher Educational Facility Commission	2012	2011
Revenue Bonds dated February 1, 1999, maturing annually on October 1, 2012 through 2015 in amounts ranging from \$3,055 to \$3,560, with an interest rate of 5.25%, plus bond premium of \$49 and \$76 at June 30, 2012 and 2011, respectively.	\$ 13,254	\$ 16,181
Revenue Bonds dated September 1, 2003, maturing annually October 1, 2016, through 2033 in amounts ranging from \$1,640 to \$5,865 with interest rate of 5.250% to 5.125%, less net bond discount of \$100 and \$107 at June 30, 2012 and 2011, respectively.	39,900	39,893
Variable-rate Revenue Bonds dated April 18, 2008, maturing annually on October 1, 2023 through 2048 in amounts ranging from \$965 to \$2,295.	40,000	40,000
Revenue Bonds dated October 1, 2009, maturing in part on October 1, 2014 in the amount of \$14,660 and October 1, 2019 in the amount of \$52,600, with interest at 5.0% plus net bond premium of \$7,707 and \$9,070 at June 30, 2012 and 2011 respectively.	<u>74,967</u>	<u>76,330</u>
<b>Total Bonds Payable, Net of Bond Premium and Discount</b>	<u><b>\$ 168,121</b></u>	<u><b>\$ 172,404</b></u>

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.

In April 2008, 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 \$40,000.

These bonds are being used to finance the renovation of existing residence halls and academic buildings, and construction of new student housing. 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 January 2006, 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 \$25,170. These bonds were used to finance the purchase, renovation and construction of residence halls, academic buildings, including a new conservatory building, a new track and soccer field, and to finance the purchase of new central heating plant equipment and a new art museum HVAC system. The College refinanced these bonds with the proceeds of the October 2009 bond offering.

In December 2005, 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 \$50,115. These bonds were used to refund \$46,990 of the outstanding principal of the February 1999 Revenue Bonds. The College refinanced the remainder with the proceeds of the October 2009 bond offering.

In September 2003, 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 \$40,000 less a net bond discount of \$157. A portion of these bonds was used to refund the outstanding principal of the June 1993 Revenue Bonds. The remaining funds were used to finance the purchase, renovation and construction of residence halls and academic buildings and to finance the acquisition and installation of a new phone system. 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 February 1999, 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 \$78,875 plus a bond premium of \$980. A portion of these bonds was used for an advanced legal defeasance of the remaining Variable Rate Demand Revenue Bonds dated December 1985 and a portion of the outstanding Revenue Bonds dated June 1993. The remaining funds were used to construct a new science center and other academic facilities. Bonds with a par value of \$46,990 were legally defeased with the December 2005 bond offering. In addition, bonds with a par value of \$3,010 were legally defeased with the October 2009 bond offering.

Future principal payments on the College's outstanding bonds at June 30, 2012 are as follows:

2012-13	\$ 3,055
2013-14	3,210
2014-15	18,040
2015-16	3,560
2016-17	1,640
Thereafter	<u>130,960</u>
	<u>\$ 160,465</u>

The estimated fair market value of the College's bond payable at June 30, 2012 is \$174,209.

## 6. INTEREST RATE SWAP ARRANGEMENTS

As part of the restructuring of its long-term debt in April 2010, the College terminated two existing interest rate swap arrangements. Termination costs for both interest rate swaps totaled \$6,390, resulting in a gain on termination of \$1,609.

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 amortization of the 1999 and 2003 bonds, was \$56,215 and \$59,115 at June 30, 2012 and 2011, respectively. The net settlement amount earned under this swap arrangement was \$344 and \$258 for the years ended June 30, 2012 and 2011, respectively, and is included in operating income in the statements of activities.

The College entered into an interest rate swap arrangement on its 2005 bonds with an initial notional amount of \$50,115, effective December 14, 2005, and terminating October 1, 2029. Under the terms of this swap arrangement, the College received monthly interest payments based on 68% of 3-month LIBOR, and makes monthly interest payments at a fixed interest rate of 3.632%. The net settlement amount expensed was \$1,272 for the year ending June 30, 2010. This interest rate swap arrangement was terminated in April 2010.

The College entered into an interest rate swap arrangement on its 2006 bonds in the amount of \$25,170, effective October 1, 2009, and terminating October 1, 2035. Under the terms of this swap arrangement, the College received monthly interest payments based on 68% of 3-month LIBOR, and makes monthly interest payments at a fixed interest rate of 3.701%. The notional amount of the swap arrangement was to amortize over the term of the 2006 bonds. The net settlement amount expensed was \$443 for the year ended June 30, 2010. This interest rate swap arrangement was terminated in April 2010.

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 term of the 2008 bonds. The net settlement amount expensed was \$1,306 and \$1,340 for the year ended June 30, 2012 and 2011, respectively.

The fair 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 statement of financial position. The estimated cumulative fair value (loss) is included within other non-current liabilities in the statement 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 value of these arrangements, which are classified as Level 2 of the fair value hierarchy at June 30, is as follows:

	2012	2011
Interest rate swap arrangement effective December 1, 2005 maturing on October 1, 2033 in the amount of \$71,885.	\$ 201	\$ (153)
Interest rate swap arrangement effective April 18, 2008 maturing on October 1, 2048 in the amount of \$40,000.	<u>(14,930)</u>	<u>(5,818)</u>
<b>Total Fair Market Value of Interest Rate Swap Arrangements</b>	<u><u>\$ (14,729)</u></u>	<u><u>\$ (5,971)</u></u>

## 7. POSTRETIREMENT BENEFITS

The College sponsors an unfunded defined benefit postretirement health care plan that covers substantially all regular status employees. During fiscal year 1996 the plan's eligibility requirement was amended from the attainment of age 62 and no years of service to requiring 20 years of service after attaining age 42 to receive the maximum College contribution. All eligible employees age 42 or older were credited with 10 years of service as of June 30, 1996. The amendment also included a cap on medical benefits limiting the College subsidy of the health care plan to two times the 1995-96 contribution level. The cap is effective for all retirees retiring after June 30, 1996. These changes reduced the Accumulated Postretirement Benefit Obligation from \$14,378 to \$7,714. Accounting rules require the unrecognized excess prior service cost of \$6,509 to be amortized over 14.3 years, the average remaining service period for current employees at June 30, 1996, and is now fully amortized. 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. The accounting for the plan at June 30, 2012 anticipated future cost-sharing changes to the plan that are 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.

For measurement purposes, an 8.5% annual rate of increase in the per capita cost of covered health care claims for pre-65 retirees was assumed for fiscal year 2012; the rate was assumed to decrease gradually to 5% by fiscal year 2019 and remain at that level thereafter. In addition, a 7% annual rate of increase in the per capita cost of covered health care claims for post-65 retirees was assumed for fiscal year 2012; the rate was assumed to decrease gradually to 5% by fiscal year 2019 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of June 30, 2012 by \$116. The aggregate of the service and interest cost components of net postretirement health care cost for the year then ended would increase by \$8. The weighted-average annual discount rate used in determining the accumulated postretirement benefit obligation was 7%.

The following table reconciles the plan's funded status to the accrued postretirement health care cost liability as reflected on the statements of financial position as of June 30, 2012 and 2011:

Accumulated Postretirement Benefit Obligation	2012	2011
Retirees	\$ 7,106	\$ 6,057
Other fully eligible participants	2,926	2,186
Other active participants	6,406	6,215
Accumulated postretirement benefit obligation	<u>\$ 16,438</u>	<u>\$ 14,458</u>

Net periodic postretirement health care cost for the years ended June 30, 2012 and 2011 included the following components:

Net periodic postretirement benefit cost	2012	2011
Service cost – benefits attributed to service during the period	\$ 569	\$ 526
Interest cost on accumulated postretirement benefit obligation	975	854
Net amortization and deferral	(146)	(370)
Net (Gain) or Loss	49	-
Net periodic postretirement benefit cost	<u>\$ 1,447</u>	<u>\$ 1,010</u>

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

	<u>Total Claims</u>	<u>Medicare Reimbursement</u>	<u>Net Claims</u>
2013	1,438	218	1,220
2014	1,561	242	1,319
2015	1,628	268	1,360
2016	1,696	296	1,400
2017	1,785	321	1,464
2018-2022	9,585	2,096	7,489

Medicare reimbursements reflected above are based on the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Assuming retiree contributions of 40%, the College expects to contribute \$1,219 toward expected net claims in fiscal 2013.

## 8. RETIREMENT PLAN

The College has a contributory defined contribution retirement plan with the Teachers Insurance and Annuity Association – College Retirement Equities Fund. The College makes contributions based on a

percentage of an eligible employee's earnings. Contributions for the years ended June 30, 2012 and 2011 were \$7,343 and \$7,292, respectively.

## **9. NOTES PAYABLE**

The College has two \$10,000 unsecured bank lines of credit with two banks. Both lines of credit have interest accrue at 30-day LIBOR plus 0.90%. One line expires on February 1, 2013, and the other line expires on October 30, 2013. The balance outstanding on these lines of credit at June 30, 2012 is \$9,000, and is reflected in other current liabilities on the Statement of Financial Position.

## **10. 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 \$2,400 at June 30, 2012 and 2011, respectively, within other non-current liabilities on the statement of financial position.

## **11. COMMITMENTS AND CONTINGENCIES**

At June 30, 2012, the College has outstanding commitments on various construction projects totaling approximately \$11,161. The largest commitment is for the Apollo Theater Project, discussed further in Footnote 12. The unexpended construction funding for the Apollo Theater Project is reflected in Assets restricted to investment in land, buildings and equipment on the Statement of Financial Position.

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 statement 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.

## **12. APOLLO THEATER PROJECT**

During the fiscal year, 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 utilizes Federal and State Historic Tax credits as well as Federal New Market Tax Credit funding. This \$10.3 million 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% 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 is included in other long-term receivables on the Statement 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 .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. These loans are included in loans payable on the Statement of Financial Position.

## **13. SUBSEQUENT EVENTS**

The College has evaluated all events subsequent to the statement of financial position date of June 30, 2012 through December 6, 2012 which is the date these financial statements were available to be issued. There are no subsequent events that require disclosure, except for the following:

Subsequent to June 30, 2012, the college has entered into a 25-year Power Purchase Agreement to prepay electric of approximately \$5.3 million.