

**OBERLIN**

COLLEGE OF ARTS & SCIENCES  
CONSERVATORY OF MUSIC

**Oberlin College**  
**Financial Report**  
Year Ended June 30, 2011

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# **Oberlin College**

## **Financial Report**

**Year ended June 30, 2011**

Ronald R. Watts, Vice President for Finance

Mark R. Bates, Associate Vice President for Finance

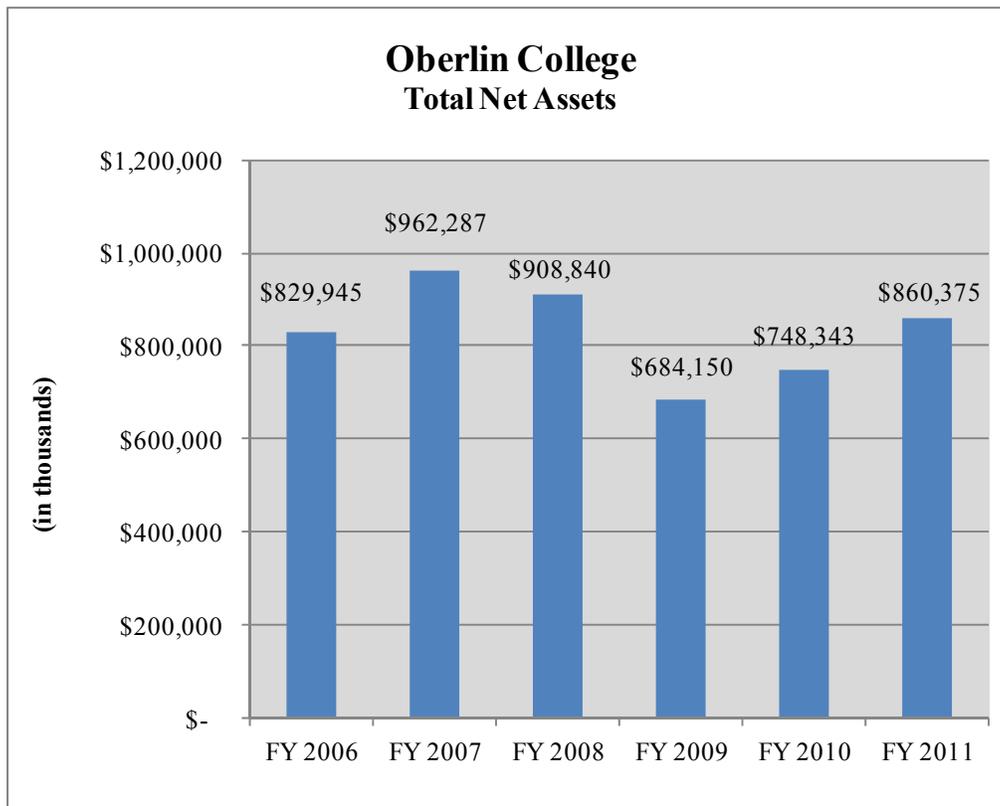
We are pleased to present Oberlin College's Annual Financial Report for the year ended June 30, 2011. This report includes our audit report, audited financial statements and related footnotes to the statements.

To provide a more complete picture of the state of the College, we are also presenting an overview of the institution's financial condition and operating results for the year. Finally, 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.

## **FINANCIAL CONDITION**

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

Oberlin's total assets at June 30, 2011 were \$1,092.0 million, up \$101.9 million, or 10.3%, from the previous fiscal year's \$990.1 million. Total liabilities as of June 30, 2011 were \$231.6 million, a reduction of \$10.1 million from the prior year's \$241.7 million. Total net assets for the College were \$860.4 million, compared to \$748.3 million as of June 30, 2010. This represents an increase of \$112.1 million, or 15.0%, during this fiscal year, as compared to the previous fiscal year's increase of \$64.1 million, or 9.4% increase from June 30, 2009. The following chart reflects the total net assets of Oberlin College at June 30, 2011 and for the previous five fiscal years.



A 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, 2011 were \$689.9 million, compared to \$604.3 million the previous year, an increase of \$85.6 million. In comparison, total endowed funds increased by \$67.0 million in the fiscal year ended June 30, 2010, from \$537.3 million at June 30, 2009.

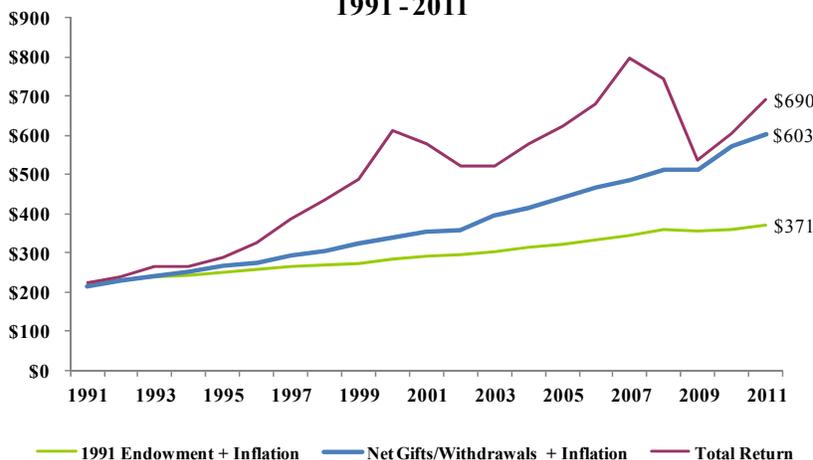
The endowment is the financial cornerstone of the College. Investment earnings from the endowment provide long-term funding for student financial aid, faculty compensation and academic programs. Most of Oberlin's 1,460 endowed funds are invested within its General Investment Pool. The College's General Investment Pool was \$688.9 million at June 30, 2011, an increase of \$85.5 million from the pool's \$603.4 million market value at June 30, 2010. Growth in the General Investment Pool is the result of donor- and board-designated gifts received from generous alumni and friends during the fiscal year as well as the increase in the market value of the pooled investments. Capital and deferred gifts totaled \$9.2 million this fiscal year, of which \$4.0 million were donor-designated endowed gifts. In fiscal year 2010, capital and deferred gifts were \$13.7 million, with \$9.4 million of donor-designated endowed gifts; also, \$34.7 million in matured annuity funds were transferred to endowed funds.

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 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 \$683,041 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 \$688,922, 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 2011, the College's net total investment return using a market valuation of \$683,041 and applying the Modified Dietz method was 19.3%, while our net total return based solely on beginning balance was 18.7%. This compares to a total net return in fiscal year 2010 of approximately 11.5% calculated using both methods (as matured annuity funds transferred to endowment helped offset spending withdrawals).

Over the past 20 years, the General Investment Pool has grown from \$229.2 million to \$689.9 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 Endowment Growth  
1991 - 2011**



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.

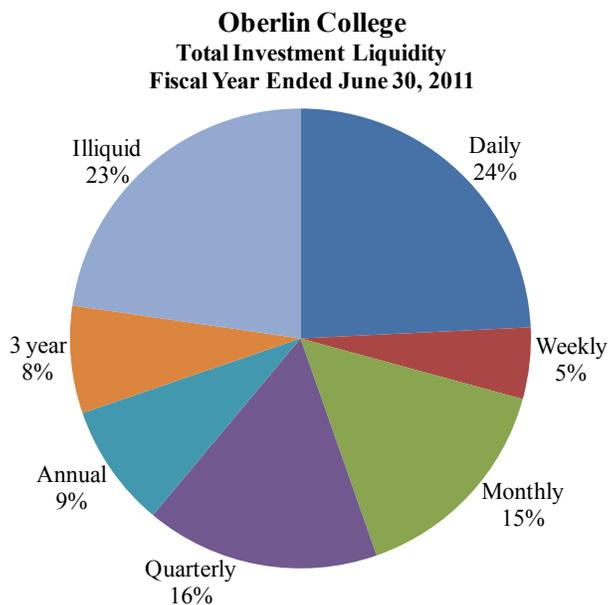
The following is the College's targeted endowment portfolio allocation for the year ending June 30, 2011.

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, 2011 and 2010 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. This can result in higher than targeted levels of cash and increased investment proceeds receivable balances at fiscal year-end. Actual endowment investment allocations at June 30, 2011 do reflect such greater balances in cash.

**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 \$689.9 million endowment and \$10.1 million in cash equivalents and short-term investments at June 30, 2011.



## **Plant Funds**

The second largest component of the College's total net assets is net assets designated for plant facilities, or plant equity, totaling \$104.3 million (\$102.3 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 \$30.9 million to its Property, Plant and Equipment assets in the year ended June 30, 2011. The College made many major capital expenditures during the fiscal year, most notably the renovation of the Allen Memorial Art Museum, the completion of Kahn Hall and the Kohl Building, the renovation of Asia House (a residential hall designed by Cass Gilbert), the renovation of College-leased space in the East College Street Project (Alumni Office and Student Art Gallery) and the beginning of Phase II of the Apollo Theater Project.

## **Debt**

The College had \$172.4 million of outstanding bonded debt at June 30, 2011, 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.

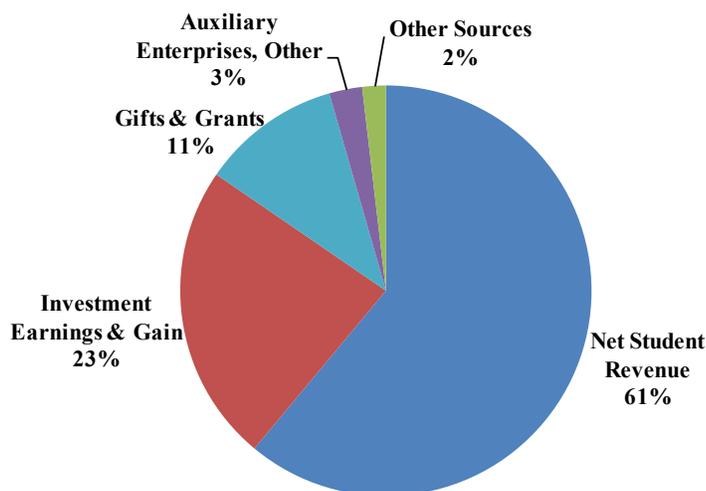
The College's derivative transactions are described within Footnote 6 to the financial statements. In summary, during the fiscal year 2006, Oberlin entered into three derivative transactions: a basis swap involving taxable and tax exempt variable interest rates and two variable-to-fixed interest rate 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 2011**

### **Operating Revenues**

Oberlin's total operating revenues were \$156.7 million for the year ended June 30, 2011 as compared to last year's \$147.0 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, 2011**



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 \$94.5 million in the current year versus \$88.7 million the previous year, an increase of approximately 6.5%. Student enrollment was slightly higher than in the previous fiscal year, and the College opened Kahn Hall for the Fall of 2010. However, the increase in net student revenue was substantially driven by increases in tuition, room and board rates, which increased by approximately 3.9%, 5.0% and 5.0%, respectively. Total student financial aid increased by 6.0%, in line with the increase in student income. As such, our discount rate for June 30, 2011 stayed consistent at 43.3% between years (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 2011, \$15.1 million of unrestricted operating support was provided in accordance with the endowment spending policy approved by the Board of Trustees, whereas in fiscal 2010 approximately \$15.4 million of support was provided. This decrease of \$0.3 million, or 2.0%, 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 2011, the College also distributed \$21.1 million to support restricted operations. The total operating distribution of \$36.2 million equates to a spending rate of 5.6% of the 36-month weighted average of our general investment pool and 6.0% of the beginning market value. This compares to \$36.3 million distributed in fiscal 2010, which equated to a spending rate of 4.7% of the 36-month weighted average, and 6.8% of the beginning market value of our general investment pool. These distribution amounts include direct support of the operating budget and support donor-restricted and board-restricted activities, such as restricted scholarships. Footnotes 1 and 2 to our financial statements further discuss the College’s endowment investment and endowment spending policies.

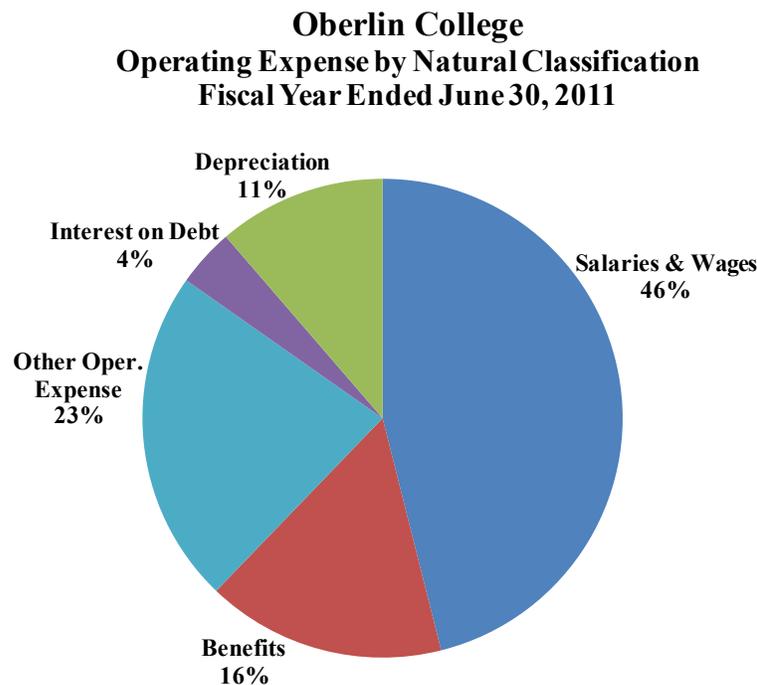
Oberlin’s third largest component of unrestricted operating revenues is support from unrestricted Private Gifts and Grants. The timing of the receipt of bequests is unpredictable, and the varying size of such bequests can cause fluctuations in giving from year to year, as depicted in this chart (dollars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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Undesignated Bequests	\$ 5,266	\$ 2,285	\$1,999	\$ 1,211	\$ 1,789
Unrestricted Giving	<u>2,667</u>	<u>2,652</u>	<u>2,450</u>	<u>3,259</u>	<u>3,982</u>
Total	\$ 7,933	\$ 4,937	\$4,449	\$ 4,470	\$5,771

## Operating Expenses

Oberlin's operating expenses totaled \$153.1 million for the year ended June 30, 2011, an increase of just \$4.2 million over the prior year, or 2.8%. 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. For the last two fiscal years, the College was forced to tighten its belt in response to the economic downturn during fiscal year 2009, and was successful at reining in spending.

While the audited financial statements present operating expenses by program, as required by accounting and reporting standards, the chart below reflects the fiscal year 2011 operating expenses by natural classification, or function, to enable greater analysis of expenses and spending trends.



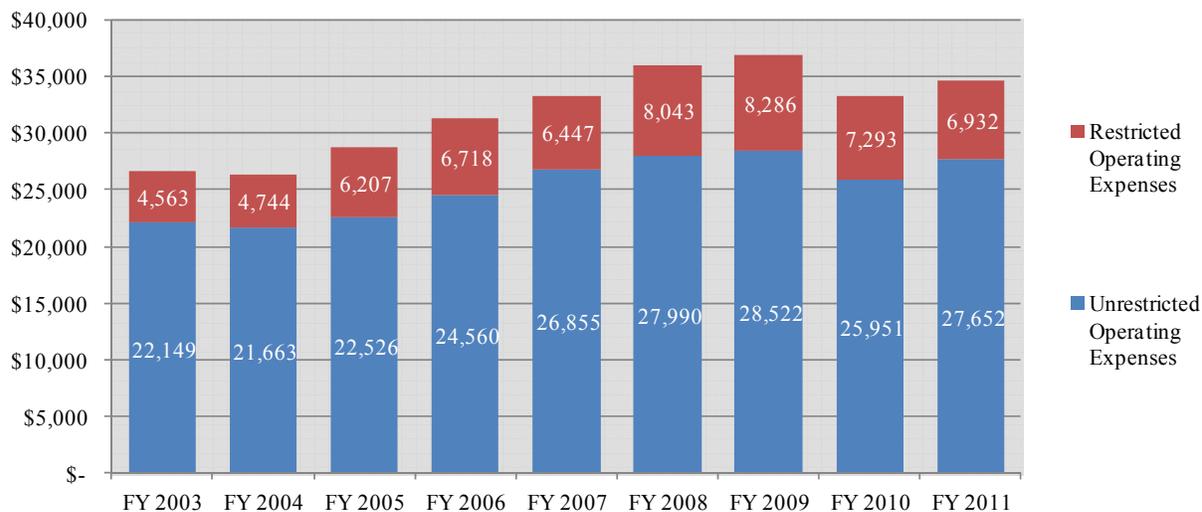
Salaries and wages are by far our largest component of operating expense, totaling approximately \$70.5 million in fiscal year 2011. This represents an increase of 1.7% over the fiscal year 2010 total of \$69.3 million. The College's Faculty and Administrative & Professional Staff collectively received raises of 1.0% for this fiscal year, after receiving no raises in fiscal year 2010.

Other operating expense, which includes utilities expense and food costs, is our second largest spending component, totaling approximately \$34.5 million in fiscal year 2011. This represents an increase of 3.9% from the fiscal year 2010 total of \$33.2 million, as compared to the 9.8% decrease experienced the previous fiscal year. The fiscal year 2011 increase is primarily due to inflation. The fiscal year 2010 decrease was the result of many factors, including the termination of certain out-sourced services that have been brought in-house, the general tightening of the operating budget and a reduction in restricted fund expenditures.

Unrestricted operating expense increased slightly from the prior fiscal year. 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. Oberlin College continues to work diligently to moderate increases in operational spending.

As depicted below, the College aggressively reduced its Other Operating spending during fiscal year 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 2011 Other Operating spending, inclusive of restricted spending and food and energy costs, represents a modest 2.5% compounded rate of increase over the last nine years.

**Oberlin College  
Other Operating Expense  
Fiscal Year Ended June 30, 2011**



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 \$24.7 million in fiscal year 2011 as compared to \$23.8 million in fiscal year 2010. 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 which increased by 1.7%. During fiscal year 2011, health plan expense for the College increased at a rate comparable to 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. To date, the College has generally been successful at making annual changes to the design of the health plan, and then sharing the increases in projected health plan costs ratably between employer and employee, to maintain the plan without a significant negative budget impact.

**LOOKING AHEAD – FISCAL YEAR 2012**

**Enrollment**

First-year enrollment statistics are reflected in the chart below. Applications continued to be strong, setting a new record in Arts & Sciences and almost so in the Conservatory. The A&S admit rate continued to decline, and the Conservatory admit rate remained low. Yields for both were in line with recent years, also positive indicators.

		<u>Applications</u>	<u>Admitted</u>	<u>Yield</u>
College of A&S	Fall 2011	6,117	32%	33%
	Fall 2010	6,014	33%	35%
	Fall 2009	5,939	37%	32%
	Fall 2008	5,778	36%	33%
	Fall 2007	5,749	34%	32%
Conservatory	Fall 2011	1,277	27%	40%
	Fall 2010	1,208	25%	40%
	Fall 2009	1,287	26%	42%
	Fall 2008	1,227	25%	41%
	Fall 2007	1,261	25%	47%

Enrollment data for our returning classes is equally strong. Retention rates are better than projected, and therefore we have exceeded our planned headcount for Fall 2011 by 29 students. However, at this point we are not projecting a significant increase in net tuition revenue for fiscal year 2012 as compared to plan, given that unrestricted financial aid expense will also be higher than plan.

### **Endowment Decrease**

Overall, our endowment has fared quite well through these difficult times. However, subsequent to June 30, 2011, investment performance has been weak, and the market value for our Endowment has dropped from \$689.9 million to approximately \$652.1 million on October 31, 2011. 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 for fiscal year 2012, 2013 and beyond.

### **Bond Agency Ratings**

In October 2009, the College refinanced its 2005, 2006 and a portion of its 1999 bonds, enabling the College to take advantage of the current financial markets and at the same time eliminating any tax arbitrage issues associated with its bonds. Perhaps equally relevant, in conjunction with our October 2009 bond offering, we were required to request updated ratings from Moody's and Standard & Poor's. 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 has rated Oberlin at AA, both reaffirmed in March 2011. Each rating 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 not make substantial distributions in a down market. As such, Oberlin's Board of Trustees approved an endowment distribution to support operations in the amount of \$33.5 million for fiscal year 2012, a reduction of approximately \$2.7 million from the actual fiscal year 2011 distribution of \$36.2 million. By comparison, such distributions were \$39.2 million, \$40.1 million and \$36.3 million in fiscal years 2008, 2009 and 2010, respectively. In order to incorporate these reduced levels of distribution into our long-range plan, 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, 2011 and 2010 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, 2011 and 2010, 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.



Cleveland, Ohio  
December 9, 2011

**Oberlin College**  
**Statements of Financial Position**  
**As of June 30, 2011 and 2010**  
**(dollars in thousands)**

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 18,550	\$ 11,658
Short-term investments	749	673
Accounts receivable, net	1,438	1,690
Pledges	11,185	10,863
Other current assets	4,683	5,251
<b>Total current assets</b>	<b>\$ 36,605</b>	<b>\$ 30,135</b>
<b>Long-Term Receivables</b>		
Pledges, net	\$ 20,829	\$ 11,810
Student loans, net	12,114	11,816
<b>Total long-term receivables</b>	<b>\$ 32,943</b>	<b>\$ 23,626</b>
<b>Long-Term Investments</b>		
Assets restricted to investment in land, buildings and equipment	\$ 5,304	\$ 25,921
Endowment funds	689,881	604,274
Annuity and life income funds	32,580	27,303
Funds held in trust by others	15,896	13,596
<b>Total long-term investments</b>	<b>\$ 743,661</b>	<b>\$ 671,094</b>
<b>Property, Plant and Equipment</b>		
Land, buildings and equipment	\$ 523,969	\$ 461,633
Construction in progress	12,013	43,467
Less: accumulated depreciation	(257,205)	(239,890)
<b>Total property, plant and equipment</b>	<b>\$ 278,777</b>	<b>\$ 265,210</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,091,986</b>	<b>\$ 990,065</b>

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

**Oberlin College**  
**Statements of Financial Position**  
**As of June 30, 2011 and 2010**  
**(dollars in thousands)**

<u>LIABILITIES and NET ASSETS</u>	<u>2011</u>	<u>2010</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 5,753	\$ 9,858
Current portion of bonds payable	2,900	2,760
Deposits and agency funds	2,155	3,652
Other current liabilities	3,392	3,196
<b>Total current liabilities</b>	<u>\$ 14,200</u>	<u>\$ 19,466</u>
<b>Other Liabilities</b>		
Accrued postretirement benefit obligation	14,458	13,773
Annuity obligations	13,950	12,179
Federal student loan funds	6,278	6,278
Other non-current liabilities	13,221	16,234
Bonds payable, net	169,504	173,792
<b>Total liabilities</b>	<u>\$ 231,611</u>	<u>\$ 241,722</u>
<b>Net Assets</b>		
<b>Unrestricted -</b>		
Current operations	\$ (5,940)	\$ (8,854)
Non-operating	(5,971)	(8,727)
Designated for specific purposes	5,740	4,120
Plant and facility funds	41,743	39,809
Board-designated endowment funds	261,745	231,967
<b>Total unrestricted</b>	<u>\$ 297,317</u>	<u>\$ 258,315</u>
<b>Temporarily Restricted -</b>		
Donor designated for specific purposes	\$ 27,278	\$ 21,250
Annuity and life income funds	7,463	6,849
Unexpended plant and facility funds	15,042	24,596
Unamortized contributions for long-lived assets	47,566	37,941
Endowment funds	231,153	180,917
<b>Total temporarily restricted</b>	<u>\$ 328,502</u>	<u>\$ 271,553</u>
<b>Permanently Restricted -</b>		
Student loan funds	\$ 4,154	\$ 3,903
Annuity and life income funds	5,381	4,098
Funds held in trust by others	15,896	13,596
Endowment funds	209,125	196,878
<b>Total permanently restricted</b>	<u>\$ 234,556</u>	<u>\$ 218,475</u>
<b>Total net assets</b>	<u>\$ 860,375</u>	<u>\$ 748,343</u>
<b>TOTAL LIABILITIES and NET ASSETS</b>	<u><u>\$ 1,091,986</u></u>	<u><u>\$ 990,065</u></u>

*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			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<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**  
**Statement of Activities**  
For the year ended June 30, 2010  
(dollars in thousands)

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Operating Revenues</b>				
Tuition and fees	\$ 113,058	\$ 1,009		\$ 114,067
Room and board	24,581			24,581
Student aid	(48,978)			(48,978)
Net student income	88,661	1,009		89,670
Auxiliary services, other	3,754			3,754
Government grants and contributions		2,697		2,697
Private gifts and grants	4,470	6,079		10,549
Investment earnings and gains	15,393	20,917	\$ 705	37,015
Other sources	3,185	107		3,292
Net assets released from restrictions	33,413	(33,413)		
<b>Total operating revenues</b>	<b>\$ 148,876</b>	<b>\$ (2,604)</b>	<b>\$ 705</b>	<b>\$ 146,977</b>
<b>Operating Expenses</b>				
Instruction	\$ 70,856			\$ 70,856
Research	935			935
Academic support	19,692			19,692
Student services	12,373			12,373
Institutional support	21,160			21,160
Auxiliary services, student and other	23,854			23,854
<b>Total operating expenses</b>	<b>\$ 148,870</b>			<b>\$ 148,870</b>
<b>Change in net assets     from operating activities</b>	<b>\$ 6</b>	<b>\$ (2,604)</b>	<b>\$ 705</b>	<b>\$ (1,893)</b>
<b>Non-operating Activities</b>				
Investment earnings and losses	\$ 1,490	\$ (5,376)	\$ (3,584)	\$ (7,470)
Unrealized gains	15,802	25,781	2,725	44,308
Capital and deferred gifts	369	3,711	9,603	13,683
Pledges and bequests	264	4,312	(616)	3,960
Change in annuity obligations	15,502	(274)	747	15,975
Payments to beneficiaries	(1,064)	(698)	(511)	(2,273)
Change in fair value of swap contracts	(694)			(694)
Non-recurring bond defeasance charge	(449)			(449)
Redesignated funds and other	(4,123)	2,417	752	(954)
<b>Change in net assets from     non-operating activities</b>	<b>\$ 27,097</b>	<b>\$ 29,873</b>	<b>\$ 9,116</b>	<b>\$ 66,086</b>
Change in net assets	27,103	27,269	9,821	64,193
Net assets at beginning of year	\$ 231,212	\$ 244,284	\$ 208,654	\$ 684,150
<b>Net assets at end of year</b>	<b>\$ 258,315</b>	<b>\$ 271,553</b>	<b>\$ 218,475</b>	<b>\$ 748,343</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, 2011 and 2010  
(dollars in thousands)

	<u>2011</u>	<u>2010</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 112,032	\$ 64,193
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	17,315	15,960
Changes in assets and liabilities that provide (use) cash:		
Accounts receivable	252	192
Other current assets	568	(715)
Pledges receivable	(9,341)	(3,959)
Accounts payable, accrued expenses and other liabilities	(6,922)	4,496
Deposits and agency funds	(1,497)	(507)
Accrued postretirement benefit obligation	685	(104)
Net adjustment of annuity obligations	1,771	(15,975)
Contributions restricted for long-term investments	(8,960)	(13,613)
Earnings restricted for long-term investment	(5,458)	130
Net realized and unrealized gains on long-term investments	(126,113)	(72,893)
Net cash used for operating activities	<u>\$ (25,668)</u>	<u>\$ (22,795)</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of plant and equipment, net	\$ (30,882)	\$ (54,181)
Proceeds from student loans collected	1,881	699
Student loans issued, net	(2,179)	(1,651)
Increase in short-term investments	(76)	(661)
Purchases of investments	(587,757)	(1,339,729)
Proceeds from sales and maturities of investments	641,303	1,395,464
Net cash provided by (used for) investing activities	<u>\$ 22,290</u>	<u>\$ (59)</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from contributions for:		
Investment in endowment	\$ 4,011	\$ 9,392
Investment in long-lived assets	2,827	3,754
Investment in life income agreements	2,122	467
Earnings restricted for long-term investment	5,458	(130)
Payments on long-term debt	(4,148)	(80,605)
Payment on termination of swap contracts		(6,390)
Proceeds from issuance of bonds, net		77,640
Net cash provided by financing activities	<u>\$ 10,270</u>	<u>\$ 4,128</u>
Net increase (decrease) in cash and cash equivalents	\$ 6,892	\$ (18,726)
Cash and cash equivalents, beginning of year	<u>11,658</u>	<u>30,384</u>
Cash and cash equivalents, end of year	<u><u>\$ 18,550</u></u>	<u><u>\$ 11,658</u></u>

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

# Oberlin College

## Notes to Financial Statements

### June 30, 2011 and 2010

(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. 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, 2011 and 2010). 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, 2011 and 2010. Fundraising expenses of approximately \$5,659 and \$6,020 are reflected within institutional support in the statement of activities for the years ended June 30, 2011 and 2010, 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, 2011 and 2010. 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.

ASSETS	June 30, 2011			Total
	Level 1	Level 2	Level 3	
Long-Term Investments				
Cash/Cash Equivalents	\$ 46,404			\$ 46,404
Emerging Markets Equity	30,912	\$ 6,866		37,778
Fixed Income	274	33,877		34,151
Hedge Funds			\$ 233,338	233,338
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	65,076	56,725		121,801
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	5,304			5,304
<b>TOTAL</b>	<b>\$ 196,658</b>	<b>\$ 134,112</b>	<b>\$ 412,891</b>	<b>\$ 743,661</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	June 30, 2010			Total
	Level 1	Level 2	Level 3	
Long-Term Investments				
Cash/Cash Equivalents	\$ 3,694			\$ 3,694
Emerging Markets Equity	15,780	\$ 11,808		27,588
Fixed Income	268	91,550		91,818
Hedge Funds	42,603		\$ 198,790	241,393
International Equity	13,743	29,255		42,998
Private Equity			97,792	97,792
Real Assets	11,008		29,306	40,314
U.S. Equity	21,419	37,258		58,677
Interests in gift annuities and trusts	11,581		15,722	27,303
Interests in funds held in trust by others			13,596	13,596
Investments restricted for plant facilities	25,921			25,921
<b>TOTAL</b>	<b>\$ 146,017</b>	<b>\$ 169,871</b>	<b>\$ 355,206</b>	<b>\$ 671,094</b>
<b>LIABILITIES</b>				
Interest rate swaps		(8,727)		(8,727)
<b>TOTAL</b>	<b>\$</b>	<b>\$ (8,727)</b>	<b>\$</b>	<b>\$ (8,727)</b>

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

	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>

	<b>Balance at 6/30/09</b>	<b>Contributions</b>	<b>Withdrawals</b>	<b>Change in MV</b>	<b>Balance at 6/30/10</b>
Hedge Funds	\$ 179,997	\$ 69,296	\$ (80,930)	\$ 30,427	\$ 198,790
Private Equity	91,642	12,637	(12,177)	5,690	97,792
Real Assets	17,151	14,688	(401)	(2,132)	29,306
Interests in Gift Annuities and Trusts	14,471	10	(135)	1,376	15,722
Interests in Funds Held in Trust by Others	12,918	659		19	13,596
<b>TOTAL</b>	<b>\$ 316,179</b>	<b>\$ 97,290</b>	<b>\$ (93,643)</b>	<b>\$ 35,380</b>	<b>\$ 355,206</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, equities 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, 2011, 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	69%
3 years	8%
Illiquid	23%

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 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, 2011 and 2010.

## 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, 2011 and 2010 was:

	<u>2011</u>	<u>2010</u>
Educational and general properties	\$ 11,607	\$ 11,009
Library books and materials	1,960	1,905
Auxiliary properties	3,748	3,046
	<u>\$ 17,315</u>	<u>\$ 15,960</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 \$7,740 in 2011 and \$8,043 in 2010. Included in these amounts are \$814 and \$1,852 of capitalized interest, 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, 2011, the College's income tax years from 2007 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

## Reclassification

Certain June 30, 2010 data have been reclassified to conform with the June 30, 2011 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, 2011:

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

The following table reflects the College's change in endowment assets for the year ended June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets, 7/1/09	\$ 195,113	\$ 162,695	\$ 178,771	\$ 536,579
Realized Gains	15,556	15,488		
Unrealized Gains	<u>7,914</u>	<u>21,769</u>		
Investment Return	\$ 23,470	\$ 37,257	\$	\$ 60,727
Contributions, net	28,940	2,009	12,052	43,001
Endowment distributions	<u>(15,556)</u>	<u>(21,314)</u>		<u>(36,870)</u>
Endowment Assets, 6/30/10	<u>\$ 231,967</u>	<u>\$ 180,647</u>	<u>\$ 190,823</u>	<u>\$ 603,437</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, 2011. 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 (\$346,050 and \$296,578 at June 30, 2011 and 2010, 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.

Net realized and unrealized gains (losses) in market value of investments are reflected in the statement of activities. The College has committed to make \$58,043 and \$50,390 of additional investments at June 30, 2011 and 2010, respectively.

Long-term investments as reflected in the Statements of Financial Position are detailed as follows:

	<b>June 30, 2011</b>		<b>June 30, 2010</b>	
	<b>Book Value</b>	<b>Market Value</b>	<b>Book Value</b>	<b>Market Value</b>
<b>GENERAL INVESTMENT POOL</b>				
Cash and Cash Equivalents	\$ 46,332	\$ 46,332	\$ 3,193	\$ 3,671
Emerging Markets	36,707	37,778	30,927	27,588
Fixed Income	32,318	33,877	88,455	91,550
Hedge Funds	177,649	233,338	155,895	241,393
International Equity	31,112	43,835	35,000	42,962
Private Equity	119,015	112,712	120,280	97,792
Real Assets	52,355	59,842	41,803	40,314
U.S. Equity	101,724	121,208	53,434	58,167
Total General Investment Pool	\$ 597,212	\$ 688,922	\$ 528,987	\$ 603,437
<b>Non Pooled Endowment</b>				
Cash & Cash Equivalents	\$ 71	\$ 71	\$ 23	\$ 23
Fixed Income	258	274	252	268
International Equity	16	20	38	36
US Equity	235	594	256	510
Total Separately Invested Funds	\$ 580	\$ 959	\$ 569	\$ 837
<b>TOTAL ENDOWMENT</b>	<b>\$ 597,792</b>	<b>\$ 689,881</b>	<b>\$ 529,556</b>	<b>\$ 604,274</b>
<b>ANNUITY AND LIFE INCOME FUNDS</b>				
<b>Pooled Income Fund Trusts</b>				
Cash & Cash Equivalents	\$ 86	\$ 86	\$ 81	\$ 81
Emerging Markets	5	13	5	11
Fixed Income	1,522	1,602	1,463	1,556
International Equity	204	246	213	197
Real Assets	390	387	409	319
U.S. Equity	564	651	620	564
Total Pooled Income Fund Trusts	\$ 2,771	\$ 2,985	\$ 2,791	\$ 2,728
<b>Gift Annuity Pool</b>				
Accounts Receivable			\$ 9	\$ 9
Cash & Cash Equivalents	\$ 360	\$ 360	1,391	1,501
Emerging Markets	245	411	244	355
Fixed Income	3,439	3,656	2,009	2,152
International Equity	1,778	2,238	1,886	1,789
Real Assets	1,405	1,759	1,465	1,421
U.S. Equity	4,044	5,240	4,329	4,354
Total Gift Annuity Pool	\$ 11,271	\$ 13,664	\$ 11,333	\$ 11,581
<b>Annuity Trusts And Unitrusts</b>				
Cash & Cash Equivalents	\$ 512	\$ 512	\$ 245	\$ 245
Emerging Markets	287	439	255	385
Fixed Income	4,141	4,362	3,697	3,957
International Equity	2,350	2,498	2,344	1,890
Real Assets	2,111	2,150	2,077	1,713
U.S. Equity	5,187	5,970	5,328	4,804
Total Separately Invested Funds	\$ 14,588	\$ 15,931	\$ 13,946	\$ 12,994
<b>TOTAL ANNUITY &amp; TRUSTS</b>	<b>\$ 28,630</b>	<b>\$ 32,580</b>	<b>\$ 28,070</b>	<b>\$ 27,303</b>
<b>RESTRICTED FOR PLANT FACILITIES</b>				
Accounts Receivable/(Payable)	\$ (2,883)	\$ (2,883)	\$ 300	\$ 300
Fixed Income	826	826	20,063	20,060
Real Assets	7,361	7,361	5,561	5,561
<b>TOTAL RESTRICTED FOR PLANT FACILITIES</b>	<b>\$ 5,304</b>	<b>\$ 5,304</b>	<b>\$ 25,924</b>	<b>\$ 25,921</b>
<b>FUNDS HELD IN TRUST BY OTHERS</b>	<b>\$ 14,014</b>	<b>\$ 15,896</b>	<b>\$ 14,126</b>	<b>\$ 13,596</b>
<b>TOTAL ASSETS FOR LONG-TERM INVESTMENT</b>	<b>\$ 645,740</b>	<b>\$ 743,661</b>	<b>\$ 597,676</b>	<b>\$ 671,094</b>

### 3. STUDENT LOANS

Student loans receivable are carried at face value, less an allowance for doubtful accounts of \$1,273 at June 30, 2011 and 2010. The interest rate on federal student financial aid was 5% for the year ended June 30, 2011 and 2010. 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:

	2011	2010
In one year or less	\$ 11,185	\$ 10,863
Between one year and five years	17,278	11,432
Greater than five years	11,589	6,037
Less discount	(8,038)	(5,659)
	<u>\$ 32,014</u>	<u>\$ 22,673</u>

### 5. BONDS PAYABLE

Bonds payable, net of bond premium and bond discount, at June 30, 2011 and 2010 consisted of the following:

<b>Ohio Higher Educational Facility Commission</b>	<u>2011</u>	<u>2010</u>
Revenue Bonds dated February 1, 1999, maturing annually on October 1, 2011 through 2015 in amounts ranging from \$2,900 to \$3,560, with an interest rate of 5.25%, plus bond premium of \$76 and \$108 at June 30, 2011 and 2010, respectively.	\$ 16,181	\$ 18,972
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 \$107 and \$114 at June 30, 2011 and 2010, respectively.	39,893	39,886
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 \$9,070 and \$10,434 at June 30, 2011 and 2010 respectively.	<u>76,330</u>	<u>77,694</u>
<b>Total Bonds Payable, Net of Bond Premium and Discount</b>	<u>\$ 172,404</u>	<u>\$ 176,552</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, 2011 are as follows:

2011-12	2,900
2012-13	3,055
2013-14	3,210
2014-15	18,040
2015-16	3,560
Thereafter	<u>132,600</u>
	<u>\$ 163,365</u>

The estimated fair market value of all outstanding long-term obligations at June 30, 2011 is \$174,966.

## 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 \$59,115 and \$61,875 at June 30, 2011 and 2010, respectively. The net settlement amount earned under this swap arrangement was \$258 and \$261 for the years ended June 30, 2011 and 2010, 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 received 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 \$1,340 and \$1,332 for the year ended June 30, 2011 and 2010, respectively, and is included in construction in progress.

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:

	<u>2011</u>	<u>2010</u>
Interest rate swap arrangement effective December 1, 2005 maturing on October 1, 2033 in the amount of \$71,885.	\$ (153)	\$ (1,012)
Interest rate swap arrangement effective April 18, 2008 maturing on October 1, 2048 in the amount of \$40,000.	<u>(5,818)</u>	<u>(7,715)</u>
<b>Total Fair Market Value of Interest Rate Swap Arrangements</b>	<u>\$ (5,971)</u>	<u>\$ (8,727)</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. 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, 2011 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, a 9% 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

2020 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 2016 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, 2011 by \$86. The aggregate of the service and interest cost components of net postretirement health care cost for the year then ended would increase by \$10. The weighted-average annual discount rate used in determining the accumulated postretirement benefit obligation was 7%.

Because the College has a postretirement health benefit plan, it is required under ASC 715-60 to recognize as a liability the accumulated postretirement benefit obligation for such a postretirement benefit plan. However, the College had previously recognized a post-retirement benefit obligation and had recorded a liability for the accumulated postretirement benefit obligation, and also had recorded a liability for the unrecognized excess prior service cost, to the extent it exceeded the unrecognized actuarial loss. Thus, the implementation of the requirements of ASC 715-60 had no impact on the College's net assets at the date of implementation.

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, 2011 and 2010:

Accumulated Postretirement Benefit Obligation	2011	2010
Retirees	\$ 6,057	\$ 5,242
Other fully eligible participants	2,186	1,869
Other active participants	6,215	5,540
Accumulated postretirement benefit obligation	<u>\$ 14,458</u>	<u>\$ 12,651</u>
Unrecognized excess prior service cost		1,881
Unrecognized actuarial loss		(759)
Accrued postretirement health care cost liability		<u>\$ 13,773</u>

At June 30, 2011 the accumulated postretirement benefit obligation of \$14,458 is reflected in the College's accompanying statement of financial position, as the College's unrecognized actuarial loss exceeded the unrecognized prior service cost. At June 30, 2010 a total liability for accrued postretirement health care cost of \$13,773 is reflected in the College's accompanying statement of financial position, as the College's unrecognized prior service cost exceeded the unrecognized actuarial loss.

Net periodic postretirement health care cost for the years ended June 30, 2011 and 2010 included the following components:

Net periodic postretirement benefit cost	2011	2010
Service cost - benefits attributed to service during the period	\$ 526	\$ 510
Interest cost on accumulated postretirement benefit obligation	854	860
Net amortization and deferral	(370)	(621)
Net (Gain) or Loss	-	-
Net periodic postretirement benefit cost	<u>\$ 1,010</u>	<u>\$ 749</u>

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

	Total <u>Claims</u>	Medicare <u>Reimbursement</u>	Net <u>Claims</u>
2012	\$ 1,340	\$ 270	\$ 1,070
2013	1,478	298	1,180
2014	1,547	325	1,222
2015	1,586	355	1,231
2016	1,647	388	1,259
2017-2021	9,105	2,425	6,680

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 \$1,070 toward expected net claims in fiscal 2012.

## **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, 2011 and 2010 were \$7,292 and \$7,162, respectively.

## **9. NOTES PAYABLE**

The College has a \$10,000 unsecured bank line of credit with interest at 30-day LIBOR plus 1.50% expiring on February 1, 2012. The balance outstanding on this line of credit at June 30, 2011 was zero.

In addition, the College opened a \$10,000 unsecured bank line of credit in 2010 that expires on October 30, 2012. This line of credit includes interest at the 30-day LIBOR plus 0.90%. The balance outstanding on this line of credit at June 30, 2011 was zero.

## **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 and \$2,300 at June 30, 2011 and 2010, respectively, within other non-current liabilities on the statement of financial position.

## **11. COMMITMENTS AND CONTINGENCIES**

At June 30, 2011, the College has outstanding commitments on various construction projects totaling approximately \$2,700. These projects are being funded with the proceeds from the 2008 bond as well as with donor contributions.

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. SUBSEQUENT EVENTS**

The College has evaluated all events subsequent to the statement of financial position date of June 30, 2011 through December 9, 2011 which is the date these financial statements were available to be issued. There are no subsequent events that require disclosure, except for the following:

On October 14, 2011 the College finalized a tax credit funded project in connection with the rehabilitation and redevelopment of the Apollo Theater. The property is held in a wholly-owned subsidiary, Apollo Theater Holdings, Inc. The project utilizes Federal and State Historic Tax Credits as well as Federal New Market Tax Credit funding. The \$10.3 million project is scheduled to be completed in July 2012.