

OBERLIN
COLLEGE & CONSERVATORY

OBERLIN
COLLEGE & CONSERVATORY
Financial Report
Year Ended June 30, 2013

Table of Contents

| | Page |
|--|-------------|
| 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, 2013

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, 2013. This report includes our audit report, audited financial statements and related footnotes to the statements.

To provide the users of these financial statements with a better understanding of the College's financial position and operations, we include an overview of the institution's financial condition and operation results for the year. We also discuss events subsequent to the fiscal year end and their effect on the College and its financial position.

These statements reflect the completion of the Apollo Theater Project and the operating results of the theater. This project involved the renovation of Oberlin's downtown theater utilizing tax credit financing. The project costs and operations are being accounted for in a subsidiary as required for tax credit purposes. 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, 2013 were \$1,143.0 million, an increase of \$63.6 million, or 5.9%, from the previous fiscal year's \$1,079.4 million. Total liabilities as of June 30, 2013 were \$246.0 million, a decrease of \$9.2 million from the prior year's \$255.2 million. Total net assets for the College were \$897.0 million, compared to \$824.2 million as of June 30, 2012. This represents an increase of \$72.8 million, or 8.8%, during this fiscal year, as compared to the previous fiscal year's decrease of \$36.2 million, or 4.2% decrease from June 30, 2011. The following chart reflects the total net assets of Oberlin College at June 30, 2013 and for the previous five fiscal years.

Total Net Assets



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

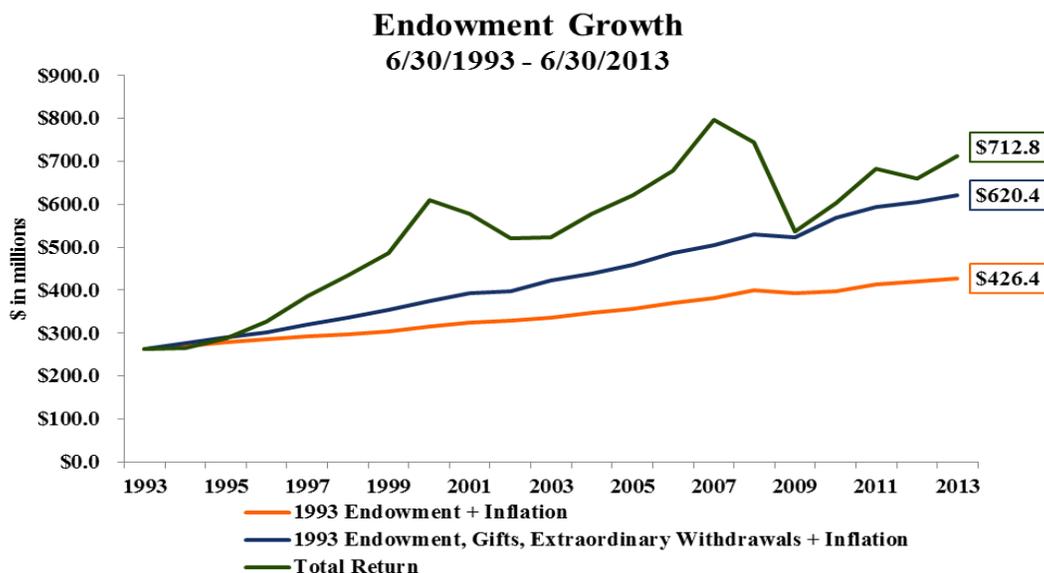
Total endowed funds as of June 30, 2013 were \$713.9 million, compared to \$661.3 million the previous year, an increase of \$52.6 million. In comparison, total endowed funds decreased by \$28.6 million in the fiscal year ended June 30, 2012, from \$689.9 million at June 30, 2011.

Like most private liberal arts schools, the endowment is the financial cornerstone of the College. Most of Oberlin's 1,575 endowed funds are invested within its General Investment Pool. The College's General Investment Pool was \$712.8 million at June 30, 2013, versus \$660.4 million at June 30, 2012, a \$52.4 million increase. This increase in the total value results from increasing market values of our pooled investments and the many donor- and board-designated gifts received from generous alumni and friends during the fiscal year, offset by the distribution of cumulative investment earnings. Such distributions of investment earnings from our endowment provide long-term funding for student financial aid, support faculty compensation and fund academic programs, and totaled \$33.5 million. Capital and deferred gifts totaled \$16.1 million this fiscal year, of which \$9.9 million were donor-designated endowed gifts. In fiscal year 2012, capital and deferred gifts were \$15.7 million, with \$8.9 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 30th valuations prior to the cut-off. A market valuation of \$710.3 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 \$712.8 million, which is reflected in our audited financial statements.

As a part of this outsourcing, the College also 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 2013, the College's net total investment return using a market valuation of \$710.3 million and applying the Modified Dietz method was 12.2%, while our net total return based solely on beginning balance was 11.7%. This compares to a total net return in fiscal year 2012 of approximately 1.0% using the Modified Dietz method but only 0.4% using our traditional return calculation methodology.

Over the past 20 years, the General Investment Pool has grown from \$263.7 million to \$712.8 million, as depicted in the chart below. Oberlin College's spending and investment policies have provided substantial levels of financial support to the operating budget. The annual distributions are critical in supporting our academic mission while preserving endowment purchasing power for future generations.



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

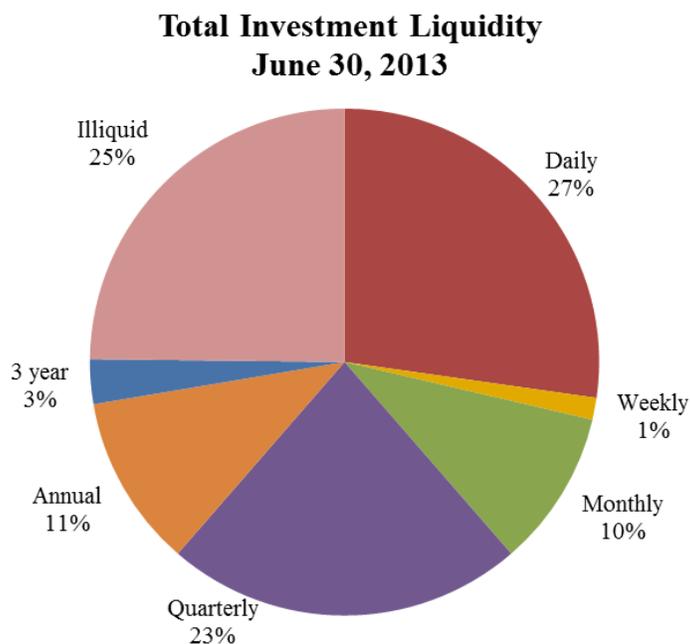
The following is the College's targeted endowment portfolio allocation for the year ending June 30, 2013, which was not changed from the previous year.

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

Actual investment balances at June 30, 2013 and 2012 are reflected in Footnote 2 to the financial statements. It should be noted that the College's Investment Office often rebalances endowment portfolio allocations at quarter end, which can result in higher than targeted levels of cash and increased investment proceeds receivable balances.

Liquidity

The Investment Committee has increased liquidity in the endowment in recent years to avoid the risk of being forced to sell securities in highly distressed markets. 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 \$712.8 million pooled endowment and \$5.2 million in cash equivalents and short-term investments at June 30, 2013.



Plant Funds

The second largest component of the College's total net assets is net assets designated for plant facilities, or plant equity, totaling \$119.8 million (\$108.6 million previous year). Plant equity is reflected either in unrestricted net assets or temporarily restricted net assets, the latter representing cumulative gifts received over the years in support of investment in plant. Gifts designated by donors were \$3.5 million for the year ended June 30, 2013, and pledges were \$10.2 million. 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 \$27.1 million to its Property, Plant and Equipment assets in the year ended June 30, 2013. The College made many major capital expenditures during the fiscal year, most notably the completion of the Apollo Theater Project, and major renovation of our Conservatory academic space for the benefit of students and staff.

Debt

The College had \$163.7 million of outstanding bonded debt at June 30, 2013, as described in great detail in Footnote 5 to the financial statements. In addition, the College issued \$52.4 million in bonds subsequent to June 30, 2013, with \$40.0 million of the proceeds used for a current refunding of the 2003 bonds, as discussed in Footnote 14.

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, the College has used derivative transactions, including variable-to-fixed interest rate swaps and a basis swap involving taxable and tax exempt variable interest rates, to limit the debt portfolio's exposure to long-term interest rate fluctuations as well as to lower the College's cost of capital at fixed rates well below historical levels.

OPERATING RESULTS – FISCAL YEAR 2013

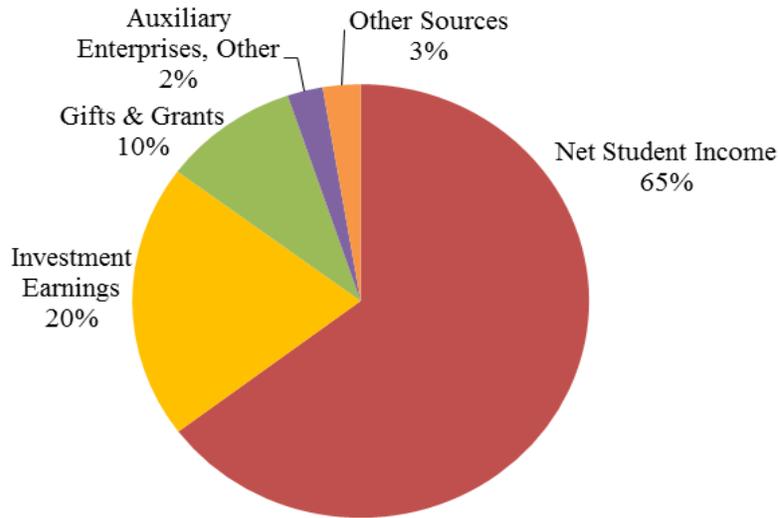
Operating Surplus

For fiscal year 2013, Oberlin had an unrestricted operating surplus of \$0.5 million, an improvement of \$1.6 million from its operating deficit in fiscal year 2012 of \$1.1 million. For the ten year period ending June 30, 2013, Oberlin has generated a cumulative operating surplus of \$0.9 million while weathering the impact of two economic downturns. It should also be noted that Oberlin has accomplished these surpluses while fully-funding its depreciation each year, using the funded depreciation as a funding source for ongoing capital maintenance, equipment replacement and other capital investments.

Operating Revenues

Oberlin's total operating revenues were \$167.5 million for the year ended June 30, 2013 as compared to last year's \$158.8 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.

Operating Revenue by Source Fiscal Year Ended June 30, 2013



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 \$108.4 million in the current year versus \$99.7 million the previous year, an increase of approximately 8.7%. Student enrollment was comparable to 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 small increase in total student financial aid, which increased by only 1.8% from \$52,619 to \$53,554. As such, our discount rate for June 30, 2013 decreased slightly from 42.5% last year to 40.5% this year (calculated as the percentage of total student aid to total unrestricted tuition and fees). In fiscal year 2013, the College began charging Oberlin's full tuition to students studying away rather than the tuition of the abroad program and study away fee.

Earnings from endowment used in support of unrestricted operations is the second largest component of the College's unrestricted operating revenues. In fiscal year 2013, \$13.2 million of unrestricted operating support was provided in accordance with the endowment spending policy approved by the Board of Trustees, whereas in fiscal year 2012 approximately \$13.7 million of support was provided. This decrease of \$0.5 million, or roughly 3.5%, reflects the long-term reduction in the distribution rate per unit of the pooled endowment investments, and that the majority of our endowed gifts are in support of specific spending uses rather than unrestricted support. 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 2013, the College also distributed \$20.3 million from endowment to support restricted operations. The total operating distribution of \$33.5 million equates to a spending rate of 5.2% of the 36-month weighted average of our general investment pool and 5.1% of the beginning market value. This compares to \$33.7 million distributed in fiscal year 2012, which equated to a spending rate of 5.5% of the 36-month weighted average, and 5.0% 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).

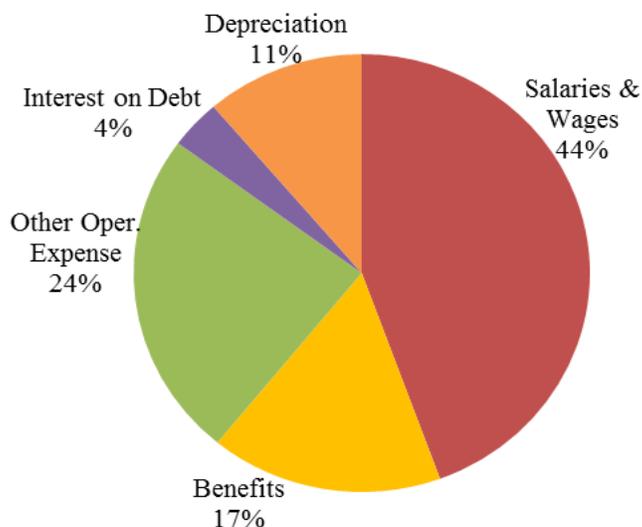
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|-----------------------|--------------|--------------|--------------|--------------|--------------|
| Undesignated Bequests | \$1,999 | \$ 1,211 | \$ 1,789 | \$ 1,351 | \$3,469 |
| Unrestricted Giving | <u>2,450</u> | <u>3,259</u> | <u>3,982</u> | <u>3,556</u> | <u>3,631</u> |
| Total | \$4,449 | \$ 4,470 | \$ 5,771 | \$ 4,907 | \$7,100 |

Operating Expenses

Oberlin's operating expenses totaled \$169.9 million for the year ended June 30, 2013, an increase of \$8.8 million over the prior year, or 5.4%. 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 2013 operating expenses by natural classification, or function, to enable greater analysis of expenses and spending trends.

Operating Expense by Natural Classification Fiscal Year Ended June 30, 2013

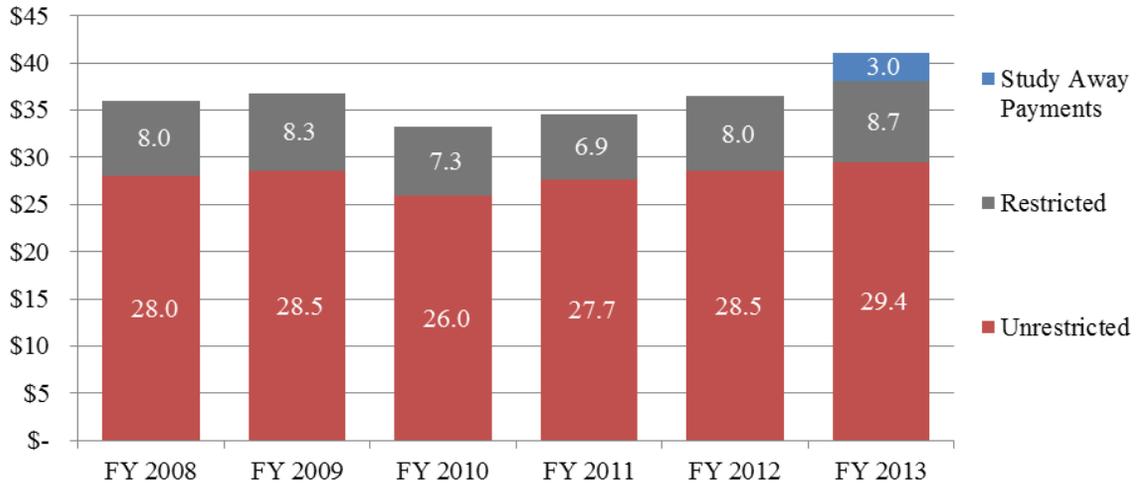


Salaries and wages are by far our largest component of operating expense, totaling approximately \$75.5 million in fiscal year 2013. This represents an increase of 3.1% over the fiscal year 2012 total of \$73.2 million. The College's Faculty and Administrative & Professional Staff collectively received raises of 2-3% for this fiscal year, and bargaining unit employees received contractual raises of approximately 2.5%. However, endowment support for salaries and wages decreased 3.1%, as the majority of the endowed gifts we are receiving are in support of other specific spending uses rather than salary support.

Other operating expense, which includes utilities expense and food costs, is our second largest spending component, totaling approximately \$41.1 million in fiscal year 2013. This represents an increase of 12.3% from the fiscal year 2012 total of \$36.5 million, as compared to the 5.8% increase experienced the previous fiscal year. The fiscal year 2013 increase results in large part from study away tuition payments to abroad programs being reflected as an expense of the College, whereas in prior years such tuition payments were passed on directly to the students, in addition to the billing of a study away fee. In addition, inflation impacts the majority of 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 continue to 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 year 2003 levels, and subsequently has utilized tight budget policies to maintain control over unrestricted operating expenses. As such, total fiscal year 2013 Other Operating spending, inclusive of restricted spending and food and energy costs, represents a modest 1.0% compounded rate of increase over the last five years.

Other Operating Expense Fiscal Year Ended June 30, 2013



Employee benefits expense is our third largest component of operating expense. This expense classification, which includes expenses associated with the College’s 403(b) employee defined contribution plan and the College’s health plans for active employees and retirees, totaled \$28.0 million in fiscal year 2013 as compared to \$26.1 million in fiscal year 2012. 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 2013, health plan expense for the College increased at a rate slightly 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 2013, we continued to experience 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. Also, in fiscal year 2013, our actuaries implemented an updated mortality table into their actuarial calculation of our retiree health care benefit plan liability, resulting in a \$0.3 million increase in expense.

LOOKING AHEAD – FISCAL YEAR 2014

Enrollment

First-year enrollment statistics are reflected in the chart below. Arts & Sciences applications set a new record, after last year’s slight decrease, the first in 16 years of consecutive increases. The Conservatory of Music applications decreased slightly after last year’s record setting high. Admit rates and yields for both divisions were in line with recent years, and in line with expectations.

| | | <u>Applications</u> | <u>% Admitted</u> | <u>Yield</u> |
|----------------|-----------|---------------------|-------------------|--------------|
| College of A&S | Fall 2013 | 6,167 | 33% | 34% |
| | Fall 2012 | 5,842 | 34% | 34% |
| | Fall 2011 | 6,117 | 32% | 33% |
| | Fall 2010 | 6,014 | 33% | 35% |
| | Fall 2009 | 5,939 | 37% | 32% |
| Conservatory | Fall 2013 | 1,271 | 27% | 40% |
| | Fall 2012 | 1,330 | 28% | 38% |
| | Fall 2011 | 1,277 | 27% | 40% |
| | Fall 2010 | 1,208 | 25% | 40% |
| | Fall 2009 | 1,287 | 26% | 42% |

Enrollment data for our returning classes continues to be strong. Our headcount for fall semester of fiscal year 2014 is down slightly from 2013, primarily because of a large senior class, acceleration through the institution due to a shift in credit policy and a slight uptick in medical leaves.

Capital Campaign

In September of 2012, 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. The private phase of the campaign was very successful, and just one year into the public phase we have raised more than \$190 million, ahead of pace to reach our goal. The campaign is scheduled to conclude in 2016.

Endowment Increase

Overall, our endowment has fared quite well through these difficult times. Subsequent to June 30, 2013, investment performance of our endowed investment pool has continued to be positive, as the market value has increased from \$712.8 million to \$730.6 million on September 30, 2013. Despite the rebound from fiscal year 2009's \$537.3 million, valuations remain lower than our endowment values in fiscal years 2007 and 2008, and thus the College has maintained a tight budget belt and very restrictive spending guidelines for fiscal year 2014 and beyond.

Bond Agency Ratings

Oberlin College's rating with Moody's is Aa2, and Standard & Poor's rates Oberlin at AA, both reaffirmed with our September 2013 bond issuance (see footnote 14). Each of these ratings is the second highest rating available from each agency, allowing Oberlin to issue its 2013 bonds at optimal interest rates. These ratings reflect our ongoing efforts to manage the College during these tough economic times, as rating agencies have given a negative outlook to the entire higher education market sector. In particular, these ratings reflect Oberlin's ability to fully fund depreciation and to accumulate a surplus of \$0.9 million over the last decade.

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. To sustain Oberlin's long-term financial sustainability, we successfully re-structured our operating budgets to incorporate reduced levels of endowment distributions. Oberlin's Board of Trustees approved an endowment distribution to support operations in the amount of \$33.7 million for fiscal year 2014, comparable to the actual fiscal year 2013 distribution of \$33.5 million and the \$33.7 distributed in fiscal year 2012. On average, this \$34 million level of endowment spending is about \$6 million less than the \$40.1 million distributed in fiscal year 2009, and roughly \$2.0 million less than the \$36.3 million and \$36.2 million distributed in fiscal years 2010 and 2011, respectively. However, we must continue to maintain financial discipline in the years ahead, looking for opportunities to enhance revenues and control spending while continuing to provide exceptional academic instruction to our students.

Independent Auditors' Report

Board of Trustees
Oberlin College
Oberlin, Ohio

We have audited the accompanying statements of financial position of Oberlin College as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oberlin College as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Cleveland, Ohio
December 13, 2013

Oberlin College
Statements of Financial Position
As of June 30, 2013 and 2012
(dollars in thousands)

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 9,669 | \$ 16,074 |
| Short-term investments | 96 | 58 |
| Accounts receivable, net | 1,075 | 2,148 |
| Pledges | 11,234 | 6,648 |
| Other current assets | <u>8,040</u> | <u>4,005</u> |
| Total current assets | \$ 30,114 | \$ 28,933 |
| Long-Term Receivables | | |
| Pledges, net | \$ 28,237 | \$ 23,964 |
| Student loans, net | 12,517 | 12,327 |
| Other long-term receivables | <u>4,571</u> | <u>5,754</u> |
| Total long-term receivables | \$ 45,325 | \$ 42,045 |
| Long-Term Investments | | |
| Assets restricted to investment in land, buildings and equipment | \$ 7,120 | \$ 13,580 |
| Endowment funds | 713,906 | 661,332 |
| Annuity and life income funds | 35,614 | 31,847 |
| Funds held in trust by others | <u>16,332</u> | <u>15,059</u> |
| Total long-term investments | \$ 772,972 | \$ 721,818 |
| Property, Plant and Equipment | | |
| Land, buildings and equipment | \$ 586,916 | \$ 558,123 |
| Construction in progress | 2,631 | 4,333 |
| Less: accumulated depreciation | <u>(294,947)</u> | <u>(275,822)</u> |
| Total property, plant and equipment | \$ 294,600 | \$ 286,634 |
| TOTAL ASSETS | \$ 1,143,011 | \$ 1,079,430 |

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

Oberlin College
Statements of Financial Position
As of June 30, 2013 and 2012
(dollars in thousands)

| | <u>2013</u> | <u>2012</u> |
|---|----------------------------|----------------------------|
| <u>LIABILITIES and NET ASSETS</u> | | |
| Current Liabilities | | |
| Accounts payable | \$ 7,931 | \$ 5,776 |
| Current portion of bonds payable | 3,210 | 3,055 |
| Deposits and agency funds | 3,686 | 2,008 |
| Other current liabilities | 8,475 | 12,594 |
| Total current liabilities | <u>\$ 23,302</u> | <u>\$ 23,433</u> |
| Other Liabilities | | |
| Accrued postretirement benefit obligation | 17,073 | 16,438 |
| Annuity obligations | 14,727 | 13,810 |
| Federal student loan funds | 6,278 | 6,278 |
| Loans payable | 7,760 | 7,760 |
| Other non-current liabilities | 16,366 | 22,407 |
| Bonds payable, net | 160,478 | 165,066 |
| Total liabilities | <u>\$ 245,984</u> | <u>\$ 255,192</u> |
| Net Assets | | |
| Unrestricted - | | |
| Current operations | \$ (9,357) | \$ (9,675) |
| Non-operating | (8,803) | (14,729) |
| Designated for specific purposes | 6,869 | 5,701 |
| Plant and facility funds | 44,821 | 45,363 |
| Board-designated endowment funds | 249,338 | 236,877 |
| Total unrestricted | <u>\$ 282,868</u> | <u>\$ 263,537</u> |
| Temporarily Restricted - | | |
| Donor designated for specific purposes | \$ 27,327 | \$ 30,084 |
| Annuity and life income funds | 8,660 | 7,126 |
| Unexpended plant and facility funds | 24,990 | 14,771 |
| Unamortized contributions for long-lived assets | 50,037 | 48,504 |
| Endowment funds | 248,285 | 218,554 |
| Total temporarily restricted | <u>\$ 359,299</u> | <u>\$ 319,039</u> |
| Permanently Restricted - | | |
| Student loan funds | \$ 4,687 | \$ 4,406 |
| Annuity and life income funds | 5,310 | 5,209 |
| Funds held in trust by others | 16,332 | 15,059 |
| Endowment funds | 228,531 | 216,988 |
| Total permanently restricted | <u>\$ 254,860</u> | <u>\$ 241,662</u> |
| Total net assets | <u>\$ 897,027</u> | <u>\$ 824,238</u> |
| TOTAL LIABILITIES and NET ASSETS | <u><u>\$ 1,143,011</u></u> | <u><u>\$ 1,079,430</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, 2013
(dollars in thousands)

| | 2013 | | | Total |
|---|-------------------|---------------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Operating Revenues | | | | |
| Tuition and fees | \$ 132,070 | \$ 1,226 | | \$ 133,296 |
| Room and board | 28,641 | | | 28,641 |
| Student aid | (53,554) | | | (53,554) |
| Net student income | 107,157 | 1,226 | | 108,383 |
| Auxiliary services, other | 4,199 | | | 4,199 |
| Government grants and contributions | | 2,275 | | 2,275 |
| Private gifts and grants | 7,100 | 6,768 | | 13,868 |
| Investment earnings | 13,204 | 20,272 | \$ 812 | 34,288 |
| Other sources | 4,285 | 189 | | 4,474 |
| Net assets released from restrictions | 34,410 | (34,410) | | |
| Total operating revenues | \$ 170,355 | \$ (3,680) | \$ 812 | \$ 167,487 |
| Operating Expenses | | | | |
| Instruction | \$ 80,820 | | | \$ 80,820 |
| Research | 1,010 | | | 1,010 |
| Academic support | 21,492 | | | 21,492 |
| Student services | 13,871 | | | 13,871 |
| Institutional support | 24,987 | | | 24,987 |
| Auxiliary services, student and other | 27,689 | | | 27,689 |
| Total operating expenses | \$ 169,869 | | | \$ 169,869 |
| Change in net assets from operating activities | \$ 486 | \$ (3,680) | \$ 812 | \$ (2,382) |
| Non-operating Activities | | | | |
| Investment earnings | \$ 11,227 | \$ 16,636 | \$ 839 | \$ 28,702 |
| Unrealized gains | 6,810 | 11,305 | 1,716 | 19,831 |
| Capital and deferred gifts | 715 | 4,993 | 10,441 | 16,149 |
| Pledges | 186 | 7,510 | 1,163 | 8,859 |
| Change in annuity obligations | 35 | (1,080) | 128 | (917) |
| Payments to beneficiaries | (559) | (750) | (565) | (1,874) |
| Post-retirement benefit obligation adjustment | (499) | | | (499) |
| Change in fair value of swap contracts | 5,926 | | | 5,926 |
| Redesignated funds and other | (4,996) | 5,326 | (1,336) | (1,006) |
| Change in net assets from non-operating activities | \$ 18,845 | \$ 43,940 | \$ 12,386 | \$ 75,171 |
| Change in net assets | 19,331 | 40,260 | 13,198 | 72,789 |
| Net assets at beginning of year | \$ 263,537 | \$ 319,039 | \$ 241,662 | \$ 824,238 |
| Net assets at end of year | \$ 282,868 | \$ 359,299 | \$ 254,860 | \$ 897,027 |

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 | | | Total |
|---|--------------------|---------------------------|---------------------------|--------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Operating Revenues | | | | |
| Tuition and fees | \$ 123,841 | \$ 1,181 | | \$ 125,022 |
| Room and board | 27,339 | | | 27,339 |
| Student aid | (52,619) | | | (52,619) |
| Net student income | 98,561 | 1,181 | | 99,742 |
| Auxiliary services, other | 4,279 | | | 4,279 |
| 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) | | |
| Total operating revenues | \$ 160,020 | \$ (1,891) | \$ 718 | \$ 158,847 |
| Operating Expenses | | | | |
| 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 |
| Total operating expenses | \$ 161,113 | | | \$ 161,113 |
| Change in net assets from operating activities | \$ (1,093) | \$ (1,891) | \$ 718 | \$ (2,266) |
| Non-operating Activities | | | | |
| 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) |
| Change in net assets from non-operating activities | \$ (32,687) | \$ (7,572) | \$ 6,388 | \$ (33,871) |
| 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 |
| Net assets at end of year | \$ 263,537 | \$ 319,039 | \$ 241,662 | \$ 824,238 |

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

Oberlin College

Statements of Cash Flows

For the years ended June 30, 2013 and 2012

(dollars in thousands)

| | <u>2013</u> | <u>2012</u> |
|---|--------------------|--------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 72,789 | \$ (36,137) |
| Adjustments to reconcile change in net assets to net cash used for operating activities: | | |
| Depreciation and amortization | 19,125 | 18,618 |
| Changes in assets and liabilities that provide (use) cash: | | |
| Accounts receivable | 1,073 | (710) |
| Other current assets | (4,035) | 678 |
| Pledges receivable | (8,859) | 1,402 |
| Accounts payable, accrued expenses and other liabilities | (4,005) | 9,411 |
| Deposits and agency funds | 1,678 | (147) |
| Accrued postretirement benefit obligation | 635 | 1,980 |
| Net adjustment of annuity obligations | 917 | (140) |
| Contributions restricted for long-term investments | (15,679) | (14,974) |
| Earnings restricted for long-term investment | (3,367) | (193) |
| Net realized and unrealized (gains) losses on long-term investments | (80,631) | 5,743 |
| Net cash used for operating activities | <u>\$ (20,359)</u> | <u>\$ (14,469)</u> |
| Cash Flows From Investing Activities | | |
| Purchases of plant and equipment, net | \$ (27,091) | \$ (26,474) |
| Proceeds from student loans collected | 1,211 | 1,112 |
| Student loans issued, net | (1,401) | (1,325) |
| (Increase) Decrease in short-term investments | (38) | 691 |
| Decrease (Increase) in other long-term receivables | 1,183 | (5,754) |
| Purchases of investments | (423,483) | (135,874) |
| Proceeds from sales and maturities of investments | 452,960 | 155,156 |
| Net cash provided by (used for) investing activities | <u>\$ 3,341</u> | <u>\$ (12,468)</u> |
| Cash Flows From Financing Activities | | |
| Proceeds from contributions for: | | |
| Investment in endowment | \$ 9,892 | \$ 8,267 |
| Investment in long-lived assets | 3,505 | 4,678 |
| Investment in life income agreements | 2,282 | 2,029 |
| Earnings restricted for long-term investment | 3,367 | 193 |
| Payments on long-term debt | (4,433) | (4,284) |
| (Payments on) proceeds from short-term debt | (4,000) | 9,000 |
| Proceeds from issuance of long-term debt | - | 7,760 |
| Net cash provided by financing activities | <u>\$ 10,613</u> | <u>\$ 27,643</u> |
| Net (decrease) increase in cash and cash equivalents | \$ (6,405) | \$ 706 |
| Cash and cash equivalents, beginning of year | <u>16,074</u> | <u>15,368</u> |
| Cash and cash equivalents, end of year | <u>\$ 9,669</u> | <u>\$ 16,074</u> |

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

Oberlin College

Notes to Financial Statements

June 30, 2013 and 2012

(dollars in thousands)

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, 2013 and 2012). 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, 2013 and 2012. Fundraising expenses of approximately \$7,163 and \$6,039 are reflected within institutional support in the statement of activities for the years ended June 30, 2013 and 2012, respectively.

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

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

Fair Value of Financial Instruments

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

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

Level 2 - Uses inputs other than Level 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 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, 2013 and 2012. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The College's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the three levels.

| ASSETS | June 30, 2013 | | | Total |
|---|-------------------|-------------------|-------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | |
| Long-Term Investments | | | | |
| Cash/Cash Equivalents | \$ 4,522 | | | \$ 4,522 |
| Collateral Cash | 115,905 | | | 115,905 |
| Emerging Markets Equity | 30,225 | \$ 13,248 | | 43,473 |
| Fixed Income | 270 | 1,375 | | 1,645 |
| Hedge Funds | | | \$ 240,067 | 240,067 |
| International Equity | 11,537 | 23,951 | | 35,488 |
| Private Equity | | | 120,027 | 120,027 |
| Real Assets | 15,950 | 9,572 | 44,598 | 70,120 |
| U.S. Equity | 24,307 | 58,352 | | 82,659 |
| Interests in gift annuities and trusts | 15,241 | | 20,373 | 35,614 |
| Interests in funds held in trust by others | | | 16,332 | 16,332 |
| Investments restricted for plant facilities | 7,120 | | | 7,120 |
| TOTAL | \$ 225,077 | \$ 106,498 | \$ 441,397 | \$ 772,972 |

LIABILITIES

| | | | | |
|---------------------|-----------|-------------------|-----------|-------------------|
| Interest rate swaps | | \$ (8,803) | | \$ (8,803) |
| TOTAL | \$ | \$ (8,803) | \$ | \$ (8,803) |

| ASSETS | June 30, 2012 | | | Total |
|---|-------------------|-------------------|-------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | |
| Long-Term Investments | | | | |
| Cash/Cash Equivalents | \$ 1,360 | | | \$ 1,360 |
| Collateral Cash | 47,254 | | | 47,254 |
| Emerging Markets Equity | 30,445 | \$ 6,246 | | 36,691 |
| Fixed Income | 701 | 49,095 | | 49,796 |
| Hedge Funds | 10,913 | | \$ 210,679 | 221,592 |
| International Equity | 25 | 26,647 | | 26,672 |
| Private Equity | 358 | | 115,311 | 115,669 |
| Real Assets | 15,194 | 10,521 | 37,405 | 63,120 |
| U.S. Equity | 39,245 | 46,430 | 13,503 | 99,178 |
| Interests in gift annuities and trusts | 13,805 | | 18,042 | 31,847 |
| Interests in funds held in trust by others | | | 15,059 | 15,059 |
| Investments restricted for plant facilities | 13,580 | | | 13,580 |
| TOTAL | \$ 172,880 | \$ 138,939 | \$ 409,999 | \$ 721,818 |

LIABILITIES

| | | | | |
|---------------------|-----------|--------------------|-----------|--------------------|
| Interest rate swaps | | \$ (14,729) | | \$ (14,729) |
| TOTAL | \$ | \$ (14,729) | \$ | \$ (14,729) |

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

| | Balance at 6/30/12 | Contributions | Withdrawals | Change in MV | Balance at 6/30/13 |
|--|-----------------------|------------------|--------------------|------------------|-----------------------|
| Hedge Funds | \$ 210,679 | \$ 62,178 | \$ (55,272) | \$ 22,482 | \$ 240,067 |
| Private Equity | 115,311 | 18,310 | (22,369) | 8,775 | 120,027 |
| Real Assets | 37,405 | 12,463 | (5,515) | 245 | 44,598 |
| U.S. Equity | 13,503 | | (14,178) | 675 | - |
| Interests in Gift Annuities and Trusts | 18,042 | 1,557 | (1,019) | 1,793 | 20,373 |
| Interests in Funds Held in Trust by Others | 15,059 | 61 | | 1,212 | 16,332 |
| TOTAL | \$ 409,999 | \$ 94,569 | \$ (98,353) | \$ 35,182 | \$ 441,397 |

| | <u>Balance at 6/30/11</u> | <u>Contributions</u> | <u>Withdrawals</u> | <u>Change in MV</u> | <u>Balance at 6/30/12</u> |
|--|-------------------------------|----------------------|--------------------|-------------------------|-------------------------------|
| 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 |
| TOTAL | \$ 412,891 | \$ 59,437 | \$ (66,148) | \$ 3,819 | \$ 409,999 |

Long-Term Investments

The College classifies its investments into the following categories:

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

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

Fixed Income - Fixed income investments include investments in government securities and corporate bonds via separate accounts, limited partnerships, commingled vehicles, and futures contracts.

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

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

Hedge Funds - Hedge funds seek to generate high long-term real returns and reduce volatility by exploiting market inefficiencies. Returns are achieved using various strategies including market neutral, long/short equity, credit, event driven, and global macro strategies.

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.

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).

U.S. Equity, International Equity, and Emerging Markets Equity - The College invests in public equity securities in various geographical areas including U.S., developed markets (International Equity) and emerging markets. Public equity securities are owned either directly by the College or indirectly through investments in limited partnerships, limited liability companies, commingled

vehicles which invest primarily in public equity securities, and futures contracts.

Capital Commitments and Endowment Liquidity

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

Due to the nature of alternative investments and the use of some limited partnerships and commingled vehicles in traditional asset classes (public equities and fixed income), the College contractually agrees to liquidity restrictions. The College, in response to this risk, closely monitors the liquidity of the portfolio. As of June 30, 2013, 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 | 72% |
| 3 years | 3% |
| 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.

Accounts Receivable, net

The College uses the allowance method for accounts receivable. Management estimates the allowance and reserve based upon its assessment of historical collections and outstanding receivables. The allowance for doubtful accounts at June 30, 2013 and 2012 was \$1,913 and \$1,893, respectively.

Unrestricted Bequests

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

Split Interest Agreements

The College is party to various split interest agreements, including perpetual trusts held by third parties, irrevocable charitable remainder trusts, charitable gift annuities, and pooled life income funds. Assets are invested by the College or by third-party trustees. Payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Contribution revenues for split-interest agreements are recognized at the dates the agreements are established. Revenues are recorded at fair value, net of the present value of the estimated future payments to be made to donors and/or other beneficiaries. The present value of payments to beneficiaries under split-interest agreements has been calculated using an annual discount rate of 7 percent at June 30, 2013 and 2012.

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, 2013 and 2012 was:

| | 2013 | 2012 |
|------------------------------------|------------------|------------------|
| Educational and general properties | \$ 12,582 | \$ 12,256 |
| Library books and materials | 2,082 | 2,019 |
| Auxiliary properties | 4,461 | 4,343 |
| | <u>\$ 19,125</u> | <u>\$ 18,618</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 \$7,394 in 2013 and \$7,516 in 2012. Included in these amounts is \$0 of capitalized interest, respectively. Interest expense was \$6,103 and \$6,225 for years ended June 30, 2013 and 2012, 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, 2013, the College's income tax years from 2009 and thereafter remain subject to examination by the Internal Revenue Service, as well

as various state and local taxing authorities.

Reclassification

Certain June 30, 2012 data have been reclassified to conform to the June 30, 2013 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, 2013:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---------------------------|-------------------|---------------------------|---------------------------|-------------------|
| Endowment Assets, 7/1/12 | \$ 236,877 | \$ 218,188 | \$ 205,313 | \$ 660,378 |
| Realized Gains | 23,363 | 35,545 | | 58,908 |
| Unrealized Gains | 6,008 | 10,253 | | 16,261 |
| Investment Return | \$ 29,371 | \$ 45,798 | \$ | \$ 75,169 |
| Contributions, net | (3,714) | 3,631 | 10,323 | 10,240 |
| Endowment distributions | (13,196) | (19,743) | | (32,939) |
| Endowment Assets, 6/30/13 | <u>\$ 249,338</u> | <u>\$ 247,874</u> | <u>\$ 215,636</u> | <u>\$ 712,848</u> |

The following table reflects the College's change in 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> |

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, 2013. As most of the investment managers for these investments report their audited financial information only as of December 31st of each calendar year, these investments (\$404,692 and \$363,395 at June 30, 2013 and 2012, 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 long-term investment asset class):

| | <u>2013</u> | <u>2012</u> |
|------------------------------|-------------------|------------------|
| Equity Futures | \$ 101,307 | \$ 74,530 |
| Fixed Income Futures | 10,120 | 6,819 |
| International Equity Futures | 31,331 | 14,703 |
| Total Notional | <u>\$ 142,757</u> | <u>\$ 96,052</u> |
| Collateral Cash | \$ 115,905 | \$ 47,254 |
| Net Leverage | <u>\$ 26,852</u> | <u>\$ 48,798</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 \$117,339 and \$103,831 of additional investments at June 30, 2013 and 2012, 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, 2013 | | June 30, 2012 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Book Value | Market Value | Book Value | Market Value |
| GENERAL INVESTMENT POOL | | | | |
| Cash and Cash Equivalents | \$ 9,437 | \$ 9,437 | \$ 2,185 | \$ 2,185 |
| Emerging Markets | 59,141 | 54,631 | 51,992 | 47,484 |
| Fixed Income | 8,927 | 9,015 | 54,036 | 56,316 |
| Hedge Funds | 192,547 | 240,067 | 183,102 | 221,592 |
| International Equity | 40,340 | 54,884 | 15,623 | 29,705 |
| Private Equity | 132,834 | 120,027 | 128,255 | 115,669 |
| Real Assets | 68,606 | 70,120 | 60,799 | 63,120 |
| U.S. Equity | 123,489 | 154,667 | 103,122 | 124,307 |
| Total General Investment Pool | \$ 635,321 | \$ 712,848 | \$ 599,114 | \$ 660,378 |
| Non Pooled Endowment | | | | |
| Cash & Cash Equivalents | \$ 59 | \$ 59 | \$ 35 | \$ 35 |
| Fixed Income | 261 | 270 | 258 | 275 |
| International Equity | 9 | 4 | 27 | 24 |
| US Equity | 318 | 725 | 269 | 620 |
| Total Separately Invested Funds | \$ 647 | \$ 1,058 | \$ 589 | \$ 954 |
| TOTAL ENDOWMENT | \$ 635,968 | \$ 713,906 | \$ 599,703 | \$ 661,332 |
| ANNUITY AND LIFE INCOME FUNDS | | | | |
| Pooled Income Fund Trusts | | | | |
| Cash & Cash Equivalents | \$ 49 | \$ 49 | \$ 113 | \$ 113 |
| Fixed Income | 1,098 | 1,141 | 1,253 | 1,358 |
| International Equity | 122 | 141 | 160 | 166 |
| Real Assets | 244 | 257 | 335 | 327 |
| U.S. Equity | 297 | 401 | 406 | 461 |
| Total Pooled Income Fund Trusts | \$ 1,810 | \$ 1,989 | \$ 2,267 | \$ 2,425 |
| Gift Annuity Pool | | | | |
| Cash & Cash Equivalents | \$ 237 | \$ 237 | \$ 192 | \$ 192 |
| Emerging Markets | 636 | 707 | 577 | 657 |
| Fixed Income | 3,953 | 4,077 | 3,517 | 3,761 |
| International Equity | 2,037 | 2,479 | 2,092 | 2,218 |
| Real Assets | 1,559 | 1,952 | 1,534 | 1,883 |
| U.S. Equity | 3,764 | 5,789 | 3,938 | 5,093 |
| Total Gift Annuity Pool | \$ 12,186 | \$ 15,241 | \$ 11,850 | \$ 13,804 |
| Annuity Trusts And Unitrusts | | | | |
| Cash & Cash Equivalents | \$ 429 | \$ 429 | \$ 147 | \$ 147 |
| Emerging Markets | 740 | 781 | 624 | 686 |
| Fixed Income | 4,514 | 4,700 | 3,871 | 4,202 |
| International Equity | 2,629 | 2,842 | 2,498 | 2,377 |
| Real Assets | 2,867 | 2,953 | 2,762 | 2,785 |
| U.S. Equity | 5,007 | 6,679 | 4,708 | 5,421 |
| Total Separately Invested Funds | \$ 16,186 | \$ 18,384 | \$ 14,610 | \$ 15,618 |
| TOTAL ANNUITY & TRUSTS | \$ 30,182 | \$ 35,614 | \$ 28,727 | \$ 31,847 |
| RESTRICTED FOR PLANT FACILITIES | | | | |
| Cash & Cash Equivalents | \$ 860 | \$ 860 | \$ 7,490 | \$ 7,490 |
| Fixed Income | 24 | 22 | 23 | 22 |
| Real Assets | 6,238 | 6,238 | 6,068 | 6,068 |
| TOTAL RESTRICTED FOR PLANT FACILITIES | \$ 7,122 | \$ 7,120 | \$ 13,581 | \$ 13,580 |
| FUNDS HELD IN TRUST BY OTHERS | \$ 13,794 | \$ 16,332 | \$ 13,733 | \$ 15,059 |
| TOTAL ASSETS FOR LONG-TERM INVESTMENT | \$ 687,066 | \$ 772,972 | \$ 655,744 | \$ 721,818 |

3. STUDENT LOANS

Student loans receivable are carried at face value, less an allowance for doubtful accounts of \$1,270 at June 30, 2013 and 2012. The interest rate on federal student financial aid was 5.0% for the year ended June 30, 2013 and 2012. 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:

| | <u>2013</u> | <u>2012</u> |
|---------------------------------|------------------|------------------|
| In one year or less | \$ 11,234 | \$ 6,648 |
| Between one year and five years | 29,163 | 24,733 |
| Greater than five years | 6,196 | 7,847 |
| Less discount | <u>(7,122)</u> | <u>(8,616)</u> |
| | <u>\$ 39,471</u> | <u>\$ 30,612</u> |

5. BONDS PAYABLE

Bonds payable, net of bond premium and bond discount, at June 30, 2013 and 2012 consisted of the following:

| Ohio Higher Educational Facility Commission | <u>2013</u> | <u>2012</u> |
|---|-------------------|-------------------|
| Revenue Bonds dated February 1, 1999, maturing annually on October 1, 2013 through 2015 in amounts ranging from \$3,210 to \$3,560, with an interest rate of 5.250%, plus bond premium of \$28 and \$49 at June 30, 2013 and 2012, respectively. | \$ 10,178 | \$ 13,254 |
| Revenue Bonds dated September 1, 2003, maturing annually October 1, 2016, through 2033 in amounts ranging from \$1,640 to \$5,865 with an interest rate of 5.000% to 5.125%, less net bond discount of \$94 and \$100 at June 30, 2013 and 2012, respectively. | 39,906 | 39,900 |
| 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 a n interest rate of 5.000%, plus net bond premium of \$6,344 and \$7,707 at June 30, 2013 and 2012, respectively. | <u>73,604</u> | <u>74,967</u> |
| Total Bonds Payable, Net of Bond Premium and Discount | <u>\$ 163,688</u> | <u>\$ 168,121</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 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, 2013 are as follows:

| | | |
|------------|----|----------------|
| 2013-14 | \$ | 3,210 |
| 2014-15 | | 18,040 |
| 2015-16 | | 3,560 |
| 2016-17 | | 1,640 |
| 2017-18 | | 1,720 |
| Thereafter | | 129,240 |
| | \$ | <u>157,410</u> |

The estimated fair market value of The College's bond payable at June 30, 2013 is \$168,448.

6. INTEREST RATE SWAP ARRANGEMENTS

The College entered into a basis swap arrangement with an initial notional amount of \$71,885, effective December 1, 2005, and terminating October 1, 2033. Under the terms of this basis swap arrangement, the College receives semi-annual interest payments based on 68% of the 3-month LIBOR plus 45.2 basis points (0.452%), and makes semi-annual interest payments based on 100% of the variable Securities Industry and Financial Markets Association Municipal Swap Index interest rate. The notional amount of the swap arrangement, which amortizes to zero concurrent with the amortization of the 1999 and 2003 bonds, was \$53,160 and \$56,215 at June 30, 2013 and 2012, respectively. The net settlement amount earned under this swap arrangement was \$292 and \$344 for the years ended June 30, 2013 and 2012, respectively, and is included in operating income in the statements of activities.

The College entered into an interest rate swap arrangement in October 2007 with an initial notional amount of \$77,870, terminating October 1, 2048. This interest rate swap arrangement was amended and restated to \$40,000, matching the 2008 bond issuance, effective April 18, 2008. Under the terms of this amended swap arrangement, the College receives monthly interest payments based on 68% of 3-month LIBOR, and makes monthly interest payments at a fixed interest rate of 3.565%. The notional amount of the swap arrangement will amortize over the term of the 2008 bonds. The net settlement amount expensed was \$1,337 and \$1,306 for the year ended June 30, 2013 and 2012, 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:

| | 2013 | 2012 |
|---|-------------------|--------------------|
| Interest rate swap arrangement effective December 1, 2005 | \$ 79 | \$ 201 |
| Interest rate swap arrangement effective April 18, 2008 | (8,882) | (14,930) |
| Total Fair Market Value of Interest Rate Swap Arrangements | \$ (8,803) | \$ (14,729) |

7. POSTRETIREMENT BENEFITS

The College sponsors an unfunded defined benefit postretirement health care plan that covers substantially all regular status employees. The plan pays stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after a stated deductible has been met. Employees hired after June 30, 1996 become eligible to participate in the plan if they retire from the College after reaching age 52, with 10 years of service. The plan is contributory, with retiree contributions adjusted annually. The accounting for the plan at June 30, 2013 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 8.0% annual rate of increase in the per capita cost of covered health care claims for pre-65 retirees was assumed for fiscal year 2013; the rate was assumed to decrease gradually to 5.0% by fiscal year 2022 and remain at that level thereafter. In addition, a 6.75% annual rate of increase in the per capita cost of covered health care claims for post-65 retirees was assumed for fiscal year 2013; the rate was assumed to decrease gradually to 5.0% by fiscal year 2022 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, 2013 by \$164. The aggregate of the service and interest cost components of net postretirement health care cost for the year then ended would increase by \$13. The weighted-average annual discount rate used in determining the accumulated postretirement benefit obligation was 7.0%.

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, 2013 and 2012:

| | 2013 | 2012 |
|---|------------------|------------------|
| Accumulated Postretirement Benefit Obligation | | |
| Retirees | \$ 7,426 | \$ 7,106 |
| Other fully eligible participants | 3,138 | 2,926 |
| Other active participants | 6,509 | 6,406 |
| Accumulated Postretirement Benefit Obligation | <u>\$ 17,073</u> | <u>\$ 16,438</u> |

Net periodic postretirement health care cost for the years ended June 30, 2013 and 2012 included the following components:

| | 2013 | 2012 |
|---|-----------------|-----------------|
| Net periodic postretirement benefit cost | | |
| Service cost – benefits attributed to service during the period | \$ 603 | \$ 569 |
| Interest cost on accumulated postretirement benefit obligation | 1,109 | 975 |
| Net amortization and deferral | (146) | (146) |
| Net (Gain) or Loss | 166 | 49 |
| Net periodic postretirement benefit cost | <u>\$ 1,732</u> | <u>\$ 1,447</u> |

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

| | Total Claims | Medicare Reimbursement | Net Claims |
|-----------|-----------------|---------------------------|---------------|
| 2014 | 1,550 | 239 | 1,311 |
| 2015 | 1,670 | 269 | 1,401 |
| 2016 | 1,746 | 299 | 1,447 |
| 2017 | 1,834 | 326 | 1,508 |
| 2018 | 1,885 | 356 | 1,529 |
| 2019-2023 | 9,910 | 2,332 | 7,578 |

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 \$1,311 toward expected net claims in fiscal year 2014.

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, 2013 and 2012 were \$7,671 and \$7,311, 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, 2014, and the other line expires on October 28, 2014. The balance outstanding on these lines of credit at June 30, 2013 and 2012 was \$5,000 and \$9,000, respectively, 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 \$2,545 and \$2,400 at June 30, 2013 and 2012, respectively, within other non-current liabilities on the statement of financial position.

11. COMMITMENTS AND CONTINGENCIES

At June 30, 2013, the College has outstanding commitments on various construction projects totaling approximately \$9,303.

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

To facilitate the Federal New Market Tax Credit structure, on October 14, 2011 the College loaned a total of \$5,754 in the form of two notes to the Apollo Theater Investment Fund LLC, an unrelated entity. The notes bear interest at the rate of 1.0% per annum, and are payable quarterly. The notes mature October 14, 2041 with interest only payments to be paid quarterly until December 2018, and can be prepaid at any time without penalty. The related notes receivable balance 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 0.6366% per annum, payable quarterly. The loans mature October 14, 2041 with interest only payments to be paid in equal quarterly installments until December 2018 at which time principal and interest payments will be due in the amount of \$52 per quarter. These loans are included in loans payable on the statement of financial position.

13. 25-YEAR POWER PURCHASE AGREEMENT

During fiscal year 2013, the college entered into a 25-year Power Purchase Agreement to prepay \$5,572 of electric. The related prepayment balance is included in other current assets on the statement of financial position. Prepaid electric is expensed based on the actual output generated by the solar photovoltaic array.

14. SUBSEQUENT EVENTS

The College has evaluated all events subsequent to the statement of financial position date of June 30, 2013 through December 13, 2013 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 September 12, 2013, the Ohio Higher Educational Facility Commission (the Commission) issued Higher Educational Facility Revenue Bonds on behalf of the College in the original principal amount of \$52,395 plus a net bond premium of \$3,300. A portion of these bonds was used for a current refunding of the outstanding principal of the September 2003 Revenue Bonds (\$40,000). The remaining funds, approximately \$15,700, are planned to be utilized to support construction of the new Austin E. Knowlton Athletics Complex and improvements to the Central Heating Plant. The College has entered into a lease agreement with the Commission on the properties financed with proceeds of the bonds. Payments due under the lease agreement represent the principal and interest due on the bonds. These Revenue Bonds will mature annually October 1, 2016 through 2038 in amounts ranging from \$910 to \$5,610 with an interest rate of 3.000% to 5.000%.

The College is in the planning stage of constructing a new hotel with a conference center, retail space, and a wing for the College's Admissions and Development operations at a projected cost of approximately \$30,000 (Gateway Complex). The project contains a fundraising component, utilizes Federal New Market Tax Credit funding, and is expected to be completed during the summer of 2015.