How Oberlin Operates: Revenue vs. Expenses
by Vice President for Finance Ronald Watts

Where does Oberlin’s revenue come from? What are our biggest expenses? How do we balance our budget? Vice President for Finance Ronald Watts explains these complexities by outlining our revenues and expenses for fiscal year 2008-09.

Where does Oberlin’s revenue come from, and what do we do when our expenses exceed our revenues?
The annual cost to operate the college for our students is much greater than the amount of tuition we charge our students, even if we did not award a single dollar of financial aid. To meet the expenses that we must incur to operate the college, we must have other sources of revenue than just tuition, room, and board.

How then does the college balance its budget?
In addition to tuition, room, and board, we have a number of other sources of revenue to offset our operating expenses and help us balance our budget.

Operating Revenues
The two other major sources of revenue are expendable earnings from our endowment and gifts and grants. The chart below depicts our various sources of operating revenue.

![Oberlin College Operating Revenue by Source](image)

Our total operating revenues for fiscal year 2008-09 were $147.6 million. This total does not include revenues that we are not able to spend, which we refer to as non-operating revenues. Examples of these include endowment earnings that we are not authorized to
spend, future pledges, and gifts from donors designated for our endowment or a capital project.

**Net Student Revenue**

Net student revenue comprises tuition, fees, and room and board. It is called “net” student revenue because it is net of student financial aid. It is the largest component of Oberlin’s unrestricted operating revenues, totaling $84.1 million in the current year versus $79.0 million the previous year, an increase of approximately 6.5 percent. (Note that some of our operating revenues may be restricted to a specific purpose or program and not available to support the general operating budget of the college. We normally refer to our unrestricted operations when we discuss our operating budget.)

Student enrollment was slightly higher than in the previous fiscal year. Thus, the increase in net student revenue was almost entirely driven by increases in tuition, room, and board rates, which increased by approximately 5.4 percent. However, total student financial aid increased by $4.8 million, or 12.1 percent. As such, our discount rate for fiscal year 2008-09 increased to 41.9 percent, from 40.5 percent in the previous fiscal year, calculated as the percentage of Total Financial Aid to Total Unrestricted Tuition and Fees. What this means is that approximately 42 percent of the tuition and fees we billed to our students or parents is not being collected. As this discount rate increases there is less remaining net student revenue available to meet our operating expenses.

**Endowment Earnings**

The second largest component of the college’s unrestricted operating revenues is endowment earnings. However, not all of our endowment earnings are available to spend to help meet our operating expenses. Our Board of Trustees authorizes what we can spend via its Endowment Spending Policy. In both fiscal year 2008-09 and 2007-08, approximately $17.1 million of support for our operations was provided based on the board’s policy. Oberlin’s endowment spending policy strives to:

- increase the real value of the endowment (that means to increase at a rate above inflation);
- provide a dependable stream of support to the college’s annual operating budget;
- release earnings at a sustainable rate over the long term; and
- provide predictability and stability of endowment spending essential for long-range planning.

For fiscal year 2008-09, the college distributed a total of $40.1 million, which reflects a spending rate of 5.4 percent of the 36-month weighted average of our endowment pool, and 6.7 percent of the beginning market value. This compares to $39.2 million distributed in fiscal year 2007-08, which equated to a spending rate of 4.9 percent of the 36-month weighted average, and 5.9 percent of the beginning market value of our endowment pool. These distribution amounts not only reflect the distribution of the $17.1 million direct operating budget support referenced above, but also amounts supporting donor-restricted and board-restricted activities, such as restricted scholarships. These restricted amounts are not available to support our general operations; we can use them only when we incur expenses consistent with the purpose restriction, which may or may not be in the same year, and are usually expenditures above and beyond the general operating budget.
Gifts and Grants
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). Unrestricted giving primarily represents the results of our Annual Fund.

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<thead>
<tr>
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<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undesignated Bequests</td>
<td>$3,467</td>
<td>$5,266</td>
<td>$2,285</td>
<td>$1,999</td>
</tr>
<tr>
<td>Unrestricted Giving</td>
<td>$2,800</td>
<td>$2,667</td>
<td>$2,652</td>
<td>$2,450</td>
</tr>
<tr>
<td>Total</td>
<td>$6,267</td>
<td>$7,933</td>
<td>$4,937</td>
<td>$4,449</td>
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Operating Expenses
In fiscal year 2008-09, Oberlin’s operating expenses totaled $148.4, an increase of $6.2 million over the prior year, or a 4.4 percent increase. Like our peer institutions, Oberlin College’s expenses tend to increase at rates that exceed traditional price indices, such as the Consumer Price Index (CPI). This occurs because our costs are more heavily weighted toward salaries, benefits, and energy than the average consumer’s. 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 10-year period, HEPI has tended to average approximately 1.0 percent to 1.5 percent higher than CPI.

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<tr>
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<th>2008-09</th>
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<tbody>
<tr>
<td>HEPI</td>
<td>5.1%</td>
<td>2.8%</td>
<td>5.0%</td>
<td>2.3%</td>
</tr>
<tr>
<td>CPI</td>
<td>3.8%</td>
<td>2.6%</td>
<td>3.7%</td>
<td>1.4%</td>
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When reporting our operating expenses in our audited financial statements, we are required by the accounting and reporting standards to present operating expenses by program. This means we group our expenses by categories such as instruction, academic support and student support, to name a few. However, to enable greater analysis of expenses and spending trends, we tend to explain our operating expenses by natural classification, or function. Thus, the chart below reflects the fiscal year 2008-09 operating expenses by natural classification, and our three largest categories of expense are our salaries and wages, our benefits provided to our employees, and other operating expenses.
Salaries and Wages
Salaries (paid to our faculty and staff) and wages (paid to our hourly employees) are our largest component of operating expense, as education is a labor intensive business, totaling approximately $68.3 million in fiscal year 2008-09. This represents an increase of 4.4 percent over the fiscal year 2007-08 total of $65.4 million. Most of this increase is the result of annual salary and wage increases (which generally ranged from 3 to 6 percent), as the number of people employed by Oberlin in the various employee classifications remained relatively constant.

Other Operating Expense
Other operating expenses, such as utilities expense and food costs, are our second largest spending component, totaling approximately $36.8 million in fiscal year 2008-09. This represents an increase of 2.2 percent over the fiscal year 2007-08 total of $36.0 million, as compared to the 8.2 percent increase experienced the previous fiscal year. Much of this previous year’s increase was the result of significant restricted fund expenditures that are grouped into this category, such as the Brand Identity Initiative program, Lewis Center design fees, and Capital Campaign planning expenses. Such restricted fund expenditures were much more limited in fiscal year 2008-09.

Unrestricted operating expense only increased by 1.9 percent over the prior fiscal year. The prices of food and energy are greatly dependant 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 in spite of inflationary pressure. Every effort is made to restrain spending increases to modest levels through our budgetary process, and our institution has made great progress in recent years at moderating increases in spending. As depicted below, the college actively reduced other
spending during fiscal year 2002-03 and 2003-04, by -3.8 percent and -1.1 percent, respectively. As such, total fiscal year 2008-09 spending, inclusive of restricted spending and significant increases in food and energy costs, represents 3.6 percent compounded rate of increase since fiscal year 2001-02.

Oberlin College
Other Operating Expense
Fiscal Year Ended June 30, 2009

Employee Benefits
Employee benefits expense is the college’s third largest component of operating expense. This expense classification, which includes the college’s 403(b) employee defined contribution plan and the college’s health plan for both active employees and retirees, totaled $24.3 million in fiscal year 2008-09 as compared to $21.7 million in fiscal year 2007-08. Contributions to 403(b) retirement plans 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.

The general cost of health care, on the other hand, continues to increase at rates of 8 percent to 12 percent, before we consider changes to plan design or adjustments to employee premiums. 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. In fiscal year 2007-08, the college had experienced a good year in regard to health plan claims, with a significant reduction in the number of employees’ whose claims exceeded $50,000, which helped to control health care expenditures.