Audited Consolidated Financial Statements and Other Financial Information

Kenyon College

For the years ended June 30, 1999 and 1998
with Report of Independent Auditors

Kenyon College

Audited Consolidated Financial Statements
and Other Financial Information

For the years ended June 30, 1999 and 1998

Contents

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Report of Independent Auditors

Board of Trustees
Kenyon College

We have audited the accompanying consolidated statements of financial position of Kenyon College (the College) as of June 30, 1999 and 1998, and the related consolidated statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenyon College as of June 30, 1999 and 1998, and the related changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Young LLP

September 24, 1999

Kenyon College

Consolidated Statements of Financial Position

	June 30	
	1999	**1998**
Assets		
Cash and cash equivalents	**$ 33,600,067**	$ 15,006,429
Equity investments	**97,294,966**	83,981,400
Fixed income investments	**24,199,763**	24,170,787
Accounts and interest receivable	**491,431**	628,193
Inventories	**1,114,250**	1,353,240
Present value of pledges receivable	**13,091,825**	10,835,706
Loans receivable	**3,079,748**	2,943,725
Interests in charitable remainder trusts	**3,031,009**	2,948,302
Land	**1,217,265**	1,065,265
Equipment and furniture, net of accumulated depreciation of $9,335,776 and $8,081,191 at June 30, 1999 and 1998, respectively	**5,264,881**	4,731,605
Library books and periodicals, net of accumulated depreciation of $3,820,093 and $3,476,289 at June 30, 1999 and 1998, respectively	**4,774,997**	4,529,944
Buildings, net of accumulated depreciation of $26,642,404 and $25,314,150 at June 30, 1999 and 1998, respectively	**31,475,452**	30,477,604
Construction work-in-progress	**8,922,415**	2,157,846
Other assets	**1,711,636**	2,744,869
Total assets	**$ 229,269,705**	$ 187,574,915

See accompanying notes.

	June 30	
	1999	**1998**
Liabilities and net assets		
Liabilities:		
Accounts payable, accrued expenses and agency funds	**$ 2,843,156**	$ 2,096,781
Deposits and advances	**1,490,093**	1,414,025
Funds held for others	**13,033**	10,560
Bonds payable	**-**	103,000
Liability for post-retirement benefits	**2,956,700**	2,495,000
Annuities, life income, pooled life income and unitrust payable	**647,718**	563,206
Government loan funds	**1,776,091**	1,722,176
Capital lease obligations	**39,800,000**	19,820,000
Total liabilities	**49,526,791**	28,224,748
Net assets:		
Unrestricted	**101,306,401**	90,815,188
Temporarily restricted	**22,546,304**	19,674,232
Permanently restricted	**55,890,209**	48,860,747
Total net assets	**179,742,914**	159,350,167
Total liabilities and net assets	**$ 229,269,705**	$ 187,574,915

Kenyon College

Consolidated Statement of Activities

Year ended June 30, 1999

	Unrestricted		
	Current Operations	**Internally Designated**	**Subtotal Unrestricted**
Revenues, gains and other support:			
Student tuition	$ 34,392,431		$ 34,392,431
Less: Unfunded student financial aid	(9,560,081)		(9,560,081)
Net student tuition	24,832,350		24,832,350
Miscellaneous fees	793,712	$ 340,631	1,134,343
Gifts, pledges and bequests	2,606,650	1,269,761	3,876,411
Investment income	843,491	2,253,583	3,097,074
Realized and unrealized gains on investments	-	5,992,409	5,992,409
Government grants	257,839	142,737	400,576
Miscellaneous	269,485	-	269,485
Auxiliary enterprise revenues	10,148,033	213,644	10,361,677
Receipts from trusts in hands of others	-	-	-
	39,751,560	10,212,765	49,964,325
Net assets released from restrictions	805,851	4,242,727	5,048,578
Total revenues, gains and other support	40,557,411	14,455,492	55,012,903
Expenses:			
Instruction	13,016,299	2,317,411	15,333,710
Academic support	2,447,015	902,448	3,349,463
Student service	6,319,807	1,083,128	7,402,935
Auxiliary enterprises	9,023,190	1,580,802	10,603,992
Management and general	3,973,667	618,672	4,592,339
Fund raising	1,112,783	422,526	1,535,309
Student financial aid	1,296,191	-	1,296,191
Research	-	82,467	82,467
Miscellaneous	-	325,284	325,284
Total expenses	37,188,952	7,332,738	44,521,690
Change in net assets before capital items and additions to reserves	3,368,459	7,122,754	10,491,213
Capital items and additions to reserves	(3,368,459)	3,368,459	-
Change in net assets	-	10,491,213	10,491,213
Net assets at beginning of year	-	90,815,188	90,815,188
Net assets at end of year	$ -	$ 101,306,401	$ 101,306,401

See accompanying notes.

Temporarily Restricted	Permanently Restricted	Grand Total
		$ 34,392,431
		(9,560,081)
		24,832,350
		1,134,343
$ 7,295,873	$ 5,767,129	16,939,413
1,322,719	184,749	4,604,542
63,965	197,493	6,253,867
-	-	400,576
4,926	-	274,411
-	-	10,361,677
113,258	-	113,258
8,800,741	6,149,371	64,914,437
(5,928,669)	880,091	-
2,872,072	7,029,462	64,914,437
-	-	15,333,710
-	-	3,349,463
-	-	7,402,935
-	-	10,603,992
-	-	4,592,339
-	-	1,535,309
-	-	1,296,191
-	-	82,467
		325,284
-	-	44,521,690
2,872,072	7,029,462	20,392,747
-	-	-
2,872,072	7,029,462	20,392,747
19,674,232	48,860,747	159,350,167
$ 22,546,304	$ 55,890,209	$ 179,742,914

Kenyon College

Consolidated Statement of Activities

Year ended June 30, 1998

	Unrestricted		
	Current Operations	**Internally Designated**	**Subtotal Unrestricted**
Revenues, gains and other support:			
Student tuition	$ 32,760,777		$ 32,760,777
Less: Unfunded student financial aid	(9,530,917)		(9,530,917)
Net student tuition	23,229,860		23,229,860
Miscellaneous fees	760,383	$ 439,080	1,199,463
Gifts, pledges and bequests	2,548,666	212,279	2,760,945
Investment income	983,177	1,255,998	2,239,175
Realized and unrealized gains on investments	-	12,677,779	12,677,779
Government grants	202,409	341,544	543,953
Miscellaneous	331,812	294,284	626,096
Auxiliary enterprise revenues	9,779,112	-	9,779,112
Receipts from trusts in hands of others	-	-	-
	37,835,419	15,220,964	53,056,383
Net assets released from restrictions	899,259	1,176,875	2,076,134
Total revenues, gains and other support	38,734,678	16,397,839	55,132,517
Expenses:			
Instruction	12,416,114	1,619,873	14,035,987
Academic support	2,194,723	751,860	2,946,583
Student service	5,781,313	1,052,729	6,834,042
Auxiliary enterprises	8,524,766	1,307,489	9,832,255
Management and general	3,931,668	627,190	4,558,858
Fund raising	1,045,416	559,917	1,605,333
Student financial aid	1,043,215	-	1,043,215
Research	-	234,180	234,180
Miscellaneous	-	123,440	123,440
Total expenses	34,937,215	6,276,678	41,213,893
Change in net assets before capital items and additions to reserves	3,797,463	10,121,161	13,918,624
Capital items and additions to reserves	(3,797,463)	3,797,463	-
Change in net assets	-	13,918,624	13,918,624
Net assets at beginning of year	-	76,896,564	76,896,564
Net assets at end of year	$ -	$ 90,815,188	$ 90,815,188

See accompanying notes.

Temporarily Restricted	Permanently Restricted	Grand Total
		$ 32,760,777
		(9,530,917)
		23,229,860
		1,199,463
$ 10,831,473	$ 7,830,414	21,422,832
1,329,317	155,306	3,723,798
288,147	771,709	13,737,635
-	-	543,953
-	-	626,096
-	-	9,779,112
112,212	-	112,212
12,561,149	8,757,429	74,374,961
(2,098,369)	22,235	-
10,462,780	8,779,664	74,374,961
-	-	14,035,987
-	-	2,946,583
-	-	6,834,042
-	-	9,832,255
-	-	4,558,858
-	-	1,605,333
-	-	1,043,215
-	-	234,180
		123,440
-	-	41,213,893
10,462,780	8,779,664	33,161,068
-	-	-
10,462,780	8,779,664	33,161,068
9,211,452	40,081,083	126,189,099
$ 19,674,232	$ 48,860,747	$ 159,350,167

Kenyon College

Consolidated Statements of Cash Flows

	Year ended June 30	
	1999	**1998**
Operating activities		
Change in net assets	**$ 20,392,747**	$ 33,161,068
Adjustments to reconcile change in net assets		
to net cash provided from operating activities:		
Depreciation and amortization expense	**3,112,188**	2,820,875
Realized and unrealized gains	**(6,253,867)**	(13,737,635)
Contributions for permanently restricted purposes	**(4,704,532)**	(3,958,853)
Changes in operating assets and liabilities:		
Accounts and interest receivable	**136,762**	189,185
Loans receivable	**(136,023)**	(133,033)
Present value of pledges receivable	**(2,256,119)**	(6,015,003)
Contributions receivable from remainder trusts	**(82,707)**	(557,916)
Inventories	**238,990**	(148,932)
Other assets	**1,033,233**	(2,488,541)
Accounts payable, accrued expenses and agency funds	**746,375**	(272,673)
Deposits and advances	**76,068**	125,350
Liability for postretirement benefits	**461,700**	244,000
Annuities, life income, pooled life income and unitrust payable	**84,512**	350,144
Funds held for others	**2,473**	(7,017)
Government loan funds	**53,915**	25,725
Net cash provided from operating activities	**12,905,715**	9,596,744
Investing activities		
Purchases of land, buildings, equipment and furniture	**(11,244,856)**	(3,982,856)
Purchases of library books and periodicals	**(588,857)**	(550,797)
Disposals of land, equipment and other fixed assets	**28,779**	54,928
Purchase of securities	**(51,915,598)**	(66,155,075)
Sale of securities	**50,897,371**	63,390,763
Increased investment in limited partnerships	**(6,070,448)**	(3,510,662)
Net cash used in investing activities	**(18,893,609)**	(10,753,699)
Financing activities		
Contributions for permanently restricted purposes	**4,704,532**	3,958,853
Payments on capital leases	**(520,000)**	(500,000)
Payments on notes	**-**	(2,349)
Payments on bonds	**(103,000)**	(49,000)
Issuance of bonds	**20,500,000**	-
Net cash provided by financing activities	**24,581,532**	3,407,504
Net increase in cash and cash equivalents	**18,593,638**	2,250,549
Cash and cash equivalents at the beginning of the year	**15,006,429**	12,755,880
Cash and cash equivalents at the end of the year	**$ 33,600,067**	$ 15,006,429

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Kenyon College (the College), a private educational institution, derives its income from student tuition and fees, investments, gifts and grants, operation of residence and dining halls and related activities.

Use of Estimates

Preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Basis for Consolidation

The accounts of the Kenyon Inn Management Company, a wholly-owned subsidiary of the College, have been consolidated with the accounts of the College in the accompanying consolidated financial statements. The accounts of the Kenyon Review, the College's literary periodical, (a legally separate entity) have been combined in the accompanying consolidated financial statements of Kenyon College.

Liquidity

Assets and liabilities are listed in their estimated order of liquidity. For those accounts for which such liquidity is unclear, additional disclosures have been made in the accompanying notes to the College's consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair values of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

The carrying amount approximates fair value due to the short maturity of those instruments.

Equity Investments

Common and Preferred Stocks

The fair values of these investments are estimated based on quoted market prices for these or similar investments.

Limited Partnerships—Venture Capital, Buyout Funds and Hedge Funds

The fair value of these investments is based on the College's portion of partners' capital.

Fixed Income Investments

The fair values of these investments are estimated based on quoted market prices for these or similar investments.

Loans Receivable

Federal Perkins Loans Receivable

The interest rates charged on Perkins loans receivable are fixed by the U.S. Department of Education and do not necessarily fluctuate with market conditions. Accordingly, the carrying amount reported for loans receivable approximates fair value.

1. Summary of Significant Accounting Policies (continued)

Fair Values of Financial Instruments (continued)

Loans Receivable (continued)

Kenyon College Loans Receivable

The interest rates charged on Kenyon College loans are fixed by the College and do not fluctuate with market conditions. Accordingly, the carrying amount reported approximates fair value.

Pledges Receivable

Pledges receivable are recorded at the present value of the discounted future cash flows, based on current market interest rates. The carrying value of pledges receivable therefore approximates their fair value.

Contributions Receivable from Remainder Trusts

Contributions receivable from remainder trusts are recorded at the present value of the projected net future cash flows to be received, based on current market interest rates. Their carrying value therefore approximates their fair value.

Annuities, Pooled Life Income, Life Income, and Unitrust Payable

The carrying value of these accounts is actuarially determined based on the present value of the discounted estimated future cash flows using current market interest rates and therefore approximates fair value.

Long-Term Debt

The fair value of the College's long-term debt, based on the College's current incremental borrowing rates for similar types of borrowing arrangements, approximates its carrying amount.

1. Summary of Significant Accounting Policies (continued)

Expiration of Donor-Imposed Restrictions

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of unrestricted net assets. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of temporarily restricted net assets. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Cash Equivalents

The College considers investments with a maturity of one year or less when purchased to be cash equivalents for the statement of financial position and for purposes of preparing the statement of cash flows.

Investments

Investments are carried at fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Investments received from donors as gifts are recorded at fair value at the date of gift. Investment return includes interest, dividends and both realized and unrealized gains and losses.

1. Summary of Significant Accounting Policies (continued)

Investments (continued)

In accordance with SFAS No. 117, "Financial Statements of Not-for Profit Organizations," the College has recorded net appreciation (both realized and unrealized) on endowment funds as unrestricted net assets unless the use of such income has been temporarily or permanently restricted by the donor or by law. In cases where such donor-imposed restrictions exist, net appreciation is recorded in the same manner as the corresponding income. Accordingly, temporarily or permanently restricted net assets are impacted, depending upon the nature of the restrictions imposed.

The College's endowment funds consist of assets which are invested to provide income to support education and related activities. Depending upon whether their creation resulted from donor-imposed restrictions or internal designations by the Board of Trustees, the corpus of each endowment is recorded as permanently restricted net assets or unrestricted net assets, respectively.

Inventories

Bookstore inventories are determined by physical count and are valued at a percentage of retail value, which approximates cost. Other inventories are valued at cost.

Funds Held in Trust by Others

Resources neither in the possession nor under the control of the College and to which the college has no ultimate claim on the corpus have not been included in the College's consolidated financial statements. However, pursuant to donor wishes, income derived from these resources has been included as additions to temporarily restricted net assets in the Statement of Activities as it is received.

Irrevocable charitable remainder trusts that are held in trust by others have been included in the College's accompanying consolidated financial statements pursuant to SFAS No. 116, "Accounting for Contributions Received and Contributions Made," as an asset and as contribution revenue.

1. Summary of Significant Accounting Policies (continued)

Land, Buildings, Equipment and Depreciation

Acquisitions of land, buildings and equipment are stated at cost or at the fair market value of the properties when acquired by gift. Depreciation on physical plant and equipment is calculated on a straight-line basis over the expected useful lives of the assets.

Federal Income Taxes

The Internal Revenue Service has determined that the College is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as a public charity described in Section 501(c)(3); accordingly, no provision for federal income taxes has been made in the financial statements.

2. Guaranteed Loans

The College has guaranteed certain employees' home mortgage loans aggregating $2,343,289.

3. Investments

The fair value of investments compared with cost is as follows (refer to Note 1 for information related to fair values):

	June 30, 1999		
	Cost	**Fair Value**	**Unrealized Appreciation**
Equity investments:			
Common stocks	$ 64,358,485	$ 74,099,657	$ 9,741,172
Preferred stocks	179,959	217,781	37,822
Hedge funds	500,000	869,363	369,363
Limited partnerships	18,002,239	22,108,165	4,105,926
	83,040,683	97,294,966	14,254,283
Fixed income investments	23,184,254	24,199,763	1,015,509
	$106,224,937	$121,494,729	$15,269,792

3. Investments (continued)

	June 30, 1998		
	Cost	**Fair Value**	**Unrealized Appreciation**
Equity investments:			
Common stocks	$60,493,992	$ 69,413,235	$ 8,919,243
Preferred stocks	59,874	62,150	2,276
Hedge funds	500,000	798,276	298,276
Limited partnerships	11,931,790	13,707,739	1,775,949
	72,985,656	83,981,400	10,995,744
Fixed income investments	21,856,914	24,170,787	2,313,873
	$94,842,570	$108,152,187	$13,309,617

The composition of investment return is as follows:

	Fiscal year ended June 30	
	1999	**1998**
Investment income (interest and dividends)	**$ 4,604,542**	$ 3,723,798
Realized and unrealized gains	**6,253,867**	13,737,635
	$10,858,409	$17,461,433

Investment income is shown net of investment expenses of approximately $267,000 for the year ended June 30, 1999 and $210,000 for the year ended June 30, 1998.

Pooled Endowment Assets

The College's endowment assets consist of three distinct investment funds: A, B and C. The assets of Fund A consist principally of securities and the assets of Fund B consist principally of real estate. Fund C consists of separately invested endowment funds. Assets of Fund A are pooled for income distribution on a market value basis. Each fund in the pool purchases or sells units on the basis of the value per unit at market value at the previous year end.

3. Investments (continued)

Pooled Endowment Assets (continued)

The following summarizes pertinent data relating to the pooled assets of Fund A that are included in the investments of the College (see Note 1):

	June 30	
	1999	**1998**
Cost	**$67,629,307**	$60,706,890
Market value	**$78,350,120**	$69,388,449
Number of units	**220,175**	205,133
Market value per unit	**$355.85**	$338.26

The 1999 average annual earnings per unit amounted to $11.30 for Fund A.

The following tabulation summarizes the relationship between cost and market values as well as investment return of endowment fund investments (see Note 8):

	Market	**Cost**	**Excess of Market Value Over Cost**
June 30, 1999:			
End of year	$110,521,198	$96,040,883	$14,480,315
Beginning of year	93,369,129	81,187,167	12,181,962
Change in unrealized gain for the year			2,298,353
Net realized gains for the year			4,212,458
Total			6,510,811
Interest and dividends, net of trustee fees			2,055,840
Total return			$ 8,566,651

4. Commitment to Limited Partnerships

The College was obligated at June 30, 1999 to invest additional funds in limited partnership investments in the amount of $14,621,250 at the direction of the general partners.

5. Pledges Receivable

As of June 30, 1999 the College had received unconditional promises totaling $13,091,825 on which management has determined that no allowance for uncollectible promises is necessary.

	Temporarily Restricted	Permanently Restricted	Total
Within one year	$ 669,766	$ 502,893	$ 1,172,659
One to two years	375,688	347,847	723,535
Two to three years	79,734	1,331,725	1,411,459
Three to four years	1,288,976	1,209,056	2,498,032
Four to five years	4,245,537	807,661	5,053,198
More than five years (estate notes)	488,191	1,744,751	2,232,942
	$7,147,892	$5,943,933	$13,091,825

The amounts are recorded at the present value of future cash flows discounted using rates for one to twenty-six year treasury securities ranging from 5.41% to 6.26%.

6. Available Line of Credit

Under an unused line of credit with a bank, the College may borrow up to $1,250,000 at an interest rate approximating the bank's prime interest rate.

7. Retirement and Postretirement Benefit Plans

The College contributed $1,313,558 during the year ended June 30, 1999 to Teachers Insurance and Annuity Association of America, an industry-wide retirement plan for certain members of the faculty and staff. The benefits provided result from defined contributions based on a percentage of each employee's compensation.

In addition to the College's defined contribution retirement plan, the College has two defined benefit postretirement plans. One plan provides certain health care benefits for retired employees. Prior to June 30, 1998, employees became eligible at age 62. During 1998, the plan was amended to grant eligibility at age 59 ½, beginning July 1, 1998. The College pays for the major medical portion of the premium if the participant has either: 1) at least 10 years of service or 2) if less than 10 years of service, has participated in the medical plan during his/her entire employment with the College. If neither of the above conditions are met, the retiree pays the full amount of the premium.

7. Retirement and Postretirement Benefit Plans (continued)

The second plan provides life insurance benefits applicable only to two groups: 1) grandfathered members of the collective bargaining unit who were active as of February 4, 1974; and 2) members of the faculty who retire under early retirement agreements with coverage to continue for a maximum of 5 years. Because of the short period of coverage for faculty members covered by this plan, the value of this benefit for them is not material to the calculation of the postretirement valuation and, therefore, has not been included. The College reserves the right to modify or terminate these retiree payments at any time. The amount of funding activity is determined at the discretion of management. Currently, the College has not funded any portion of the liability.

The following sets forth the plan status with amounts reported in the College's financial statements:

	Fiscal year ended June 30	
	1999	**1998**
Net Periodic Postretirement Benefit Cost		
Service cost	**$177,100**	$143,000
Interest cost	**313,800**	226,000
Amortization of prior service cost	**44,300**	–
Amortization of unrecognized loss	**84,100**	41,000
Total net periodic postretirement benefit cost	**$619,300**	$410,000
Change in Benefit Obligation		
Benefit obligation at beginning of year	**$ 3,234,000**	$ 2,444,000
Service cost	**177,100**	143,000
Interest cost	**313,800**	226,000
Plan amendment	–	443,000
Actuarial (gain) loss	**1,000,300**	144,000
Benefits paid	**(157,600)**	(166,000)
Benefit obligation at end of year	**4,567,600**	3,234,000
Plan assets	–	–
Funded status	**(4,567,600)**	(3,234,000)
Unrecognized prior service cost	**398,700**	443,000
Unrecognized (gain)/loss	**1,212,200**	296,000
Accrued benefit cost	**$(2,956,700)**	$(2,495,000)
Reconciliation of Accrued Benefit Cost		
Accrued benefit cost at beginning of year	**$(2,495,000)**	$(2,251,000)
Estimated net benefit payments	**157,600**	166,000
Annual expense	**(619,300)**	(410,000)
Accrued benefit cost at end of year	**$(2,956,700)**	$(2,495,000)

7. Retirement and Postretirement Benefit Plans (continued)

	Fiscal year ended June 30	
	1999	**1998**
Actuarial Assumptions		
Weighted average discount rate	**7.5%**	7.0%
Medical trend:		
For next year	**7.5%**	8.0%
Thereafter	**7.0%**	7.5%
Ultimate trend rate	**4.5%**	4.5%
Year reached	**2006**	2006

The medical trend rate assumption has a significant effect on the APBO and other amounts reported. If the medical trend rates were to increase by 1 percent for each year, the APBO as of June 30, 1999, would increase by $717,000 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Expense (NPPBE) for fiscal year 1999 would increase by $90,700. If the medical trend rates were to decrease by 1 percent for each year, the APBO, as of June 30, 1999 would decrease by $583,500 and the sum of the service and interest cost components of the NPPBE for fiscal year 1999 would decrease by $72,400.

9. Capital Lease Obligations

As of June 30, 1999 the College had entered into five lease agreements with the Ohio Higher Educational Facility Commission to finance various building and improvement projects. These leases serve as security for the Commission's Higher Educational Facility Revenue Bonds. The bonds are collateralized by a security interest in the buildings and improvements comprising the various projects.

Rental payments under the leases equal the interest and principal payments on related bonds issued by the Commission. The leases give the College the option to purchase the assets at nominal amounts after all bonds are retired. Accordingly, the College has recorded the assets ($27,975,512 net of accumulated depreciation of $17,247,838 at June 30, 1999) as buildings or construction work in progress and the liabilities as capital lease obligations. Amortization of these assets is included in depreciation expense.

All revenues generated by the leased facilities are pledged as collateral for retirement of the bonds. At June 30, 1999, certain assets having a market value of $196,135 were on deposit to guarantee interest and principal payment on the bonds.

9. Capital Lease Obligations (continued)

Fixed Interest Rate Bonds

Following is a summary of the bonds described above which have fixed interest rates:

7.40% Bonds issued in 1970, callable after 1982 and maturing through 2007	$ 705,000
4.30% to 5.375% Bonds issued in 1993, callable after 2003 maturing through 2016	10,495,000
Total	$11,200,000

The amount of rent paid by the College on its fixed rate bonds for the year ended June 30, 1999 was $1,103,948 of which $520,000 represents principal and $583,948 represents interest. These rents include the final payment on bonds which were issued in 1968 and matured through 1999. At June 30, 2000, future minimum payments by year and in the aggregate, net of amounts subsidized by a government agency, under the capital lease obligations consist of the following:

2000	$ 998,710
2001	1,006,950
2002	1,003,082
2003	1,002,628
2004	995,552
Remaining amount due	11,982,495
	16,989,417
Amount representing interest	5,789,417
Fixed rate bonds outstanding	$11,200,000

9. Capital Lease Obligations (continued)

Variable Interest Rate Bonds

The 1992 Bonds

In December 1992, the College issued variable rate, multi-mode bonds with a par value of $8,100,000. Since the issue date, those bonds have traded in the weekly mode and the average interest rate on the placements through June 30, 1999 was 3.28 percent. The amount of rent paid (which represents interest) was $264,859 for the fiscal year ended June 30, 1999. The principal payment is due at maturity on April 1, 2022 unless redeemed under the provisions of the bond. Future minimum lease payments, excluding redemptions and principal due at maturity, represent interest payments and will vary based on the mode selected and economic conditions. In addition, the College has obtained a line of credit with a bank to provide for liquidity in connection with remarketing the bonds. The line of credit expires December 15, 2001.

During any daily, weekly or commercial paper mode, the bonds in such mode may be redeemed prior to maturity at a redemption price of 100 percent of the principal amount thereof.

The 1998 Bonds

In August 1998, the College issued variable rate, multi-mode bonds with a par value of $20,500,000. Since the issue date, those bonds have traded in the weekly mode and the average interest rate on the placements through June 30, 1999 was 3.25 percent. The amount of rent paid (which represents interest) was $564,677 for the fiscal year ended June 30, 1999. The principal payment is due at maturity on August 1, 2033 unless redeemed under the provisions of the bond. Future minimum lease payments, excluding redemptions and principal due at maturity, represent interest payments and will vary based on the mode selected and economic conditions. In addition, the College has obtained a line of credit with a bank provide for liquidity in connection with the remarketing of the bonds. The line of credit expires August 26, 2003.

During any daily or weekly rate period, the bonds in such period may be redeemed prior to maturity at a redemption price of 100 percent of the principal amount thereof.

10. Net Assets

Net assets of the College, and the nature of any restrictions, are summarized below:

	June 30	
	1999	**1998**
Unrestricted net assets:		
Board designated net assets:		
Funds functioning as endowment	**$ 65,147,893**	$61,143,375
Capital reserve	**307,569**	17,992
Major physical plant repair and replacement reserve	**357,605**	829,921
Total board designated net assets	**65,813,067**	61,991,288
Other designations of net assets:		
Equity in plant assets (at cost)	**22,747,803**	21,455,414
Management designated net assets	**11,679,356**	6,439,866
Unrestricted annuities and pooled life funds, and charitable remainder trusts	**1,066,175**	928,620
Total other designations of net assets	**35,493,334**	28,823,900
Total unrestricted net assets	**$101,306,401**	$90,815,188
Temporarily restricted net assets:		
Pledges and remainder trusts receivable	**$ 8,506,786**	$ 6,681,280
Life and pooled life income funds	**1,698,879**	1,666,193
Unexpended gifts and grants	**11,926,640**	10,864,908
Endowment income designated for restricted purposes	**413,999**	401,851
Other	**–**	60,000
Total temporarily restricted net assets	**$ 22,546,304**	$19,674,232

10. Net Assets (continued)

	June 30	
	1999	**1998**
Permanently restricted net assets:		
Endowment funds	**$45,373,304**	$38,950,223
Pledges and remainder trusts receivable	**7,860,161**	7,294,143
Annuity, life income and unitrust funds	**1,234,045**	1,248,702
Student loan funds	**1,422,699**	1,367,679
Total permanently restricted net assets	**$55,890,209**	$48,860,747

11. Commitments

The College has outstanding commitments of approximately $23 million remaining for the construction of new facilities.

12. Year 2000 (Unaudited)

The College has developed a plan to modify its information technology to be ready for the Year 2000, and conversion and testing of major systems and hardware is substantially complete. Conversion of other minor systems is scheduled for completion by December, 1999. The College presently believes that with these modifications to existing systems, the Year 2000 issue will not pose significant operational problems. The College is utilizing both internal and external resources to reprogram, replace, and upgrade systems for Year 2000. The total cost of the Year 2000 project is not expected to be significant and is being funded through operating cash flows.

The College has had formal communications with all of its significant suppliers and customers, including banks and investment managers and custodians, to determine the extent to which the College's interface systems and business continuity are vulnerable to third party Year 2000 issues. However, there can be no guarantee that the systems of other companies on which the College's systems rely will be timely converted, avoiding an adverse effect on the College. The College will continue to monitor and update the status of third party Year 2000 projects to ensure no business interruption occurs. The College is currently developing certain contingency plans in order to address unforeseen Year 2000 issues.

12. Year 2000 (Unaudited, continued)

The costs of the project and the date on which the College believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved. As such, actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.