Audited Consolidated Financial Statements and Other Financial Information

Kenyon College

For the years ended June 30, 2002 and 2001 with Report of Independent Auditors

Kenyon College

Audited Consolidated Financial Statements
and Other Financial Information

For the years ended June 30, 2002 and 2001

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, 2002 and 2001, 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 auditing standards generally accepted in the United States. 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, 2002 and 2001, and the related changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

October 2, 2002

Kenyon College

Consolidated Statements of Financial Position

	June 30	
	2002	**2001**
Assets		
Cash and cash equivalents	$ **8,212,499**	$ 17,129,345
Equity investments	**117,990,506**	128,394,527
Fixed income investments	**62,510,234**	56,265,697
Accounts and interest receivable	**1,899,750**	1,806,261
Inventories	**1,120,428**	1,109,628
Present value of pledges receivable	**31,060,519**	14,089,124
Loans receivable	**3,232,522**	3,152,380
Interests in charitable trusts	**5,730,042**	6,266,187
Land	**2,023,831**	1,285,136
Equipment and furniture, net of accumulated depreciation of $13,284,513 and $11,954,111 at June 30, 2002 and 2001, respectively	**6,535,562**	5,697,074
Library books and periodicals, net of accumulated depreciation of $5,003,912 and $4,581,932 at June 30, 2002 and 2001, respectively	**5,545,596**	5,269,141
Buildings, net of accumulated depreciation of $33,057,523 and $30,441,789 at June 30, 2002 and 2001, respectively	**76,446,663**	66,241,161
Construction work-in-progress	**2,591,406**	2,141,251
Other assets	**190,859**	214,573
Total assets	$ **325,090,417**	$ 309,061,485

See accompanying notes.

	June 30	
	2002	2001
Liabilities and net assets		
Liabilities:		
Accounts payable, accrued expenses and agency funds	$ **3,156,932**	$ 2,829,172
Deposits and advances	**1,753,994**	2,443,505
Funds held for others	**12,356**	18,827
Liability for post-retirement benefits	**4,825,100**	3,942,600
Annuities, life income, pooled life income and unitrust payable	**1,489,787**	1,433,650
Government loan funds	**1,840,839**	1,818,894
Capital lease obligations	**67,400,000**	67,890,000
Total liabilities	**80,479,008**	80,376,648
Net assets:		
Unrestricted	**117,981,876**	127,272,836
Temporarily restricted	**49,376,296**	27,900,586
Permanently restricted	**77,253,237**	73,511,415
Total net assets	**244,611,409**	228,684,837
Total liabilities and net assets	$ **325,090,417**	$ 309,061,485

Kenyon College

Consolidated Statement of Activities

Year ended June 30, 2002

	Unrestricted: Current Operations	Unrestricted: Internally Designated	Subtotal Unrestricted
Revenues, gains and other support:			
Student tuition	$ 40,432,944		$ 40,432,944
Less: Unfunded student financial aid	(11,107,520)		(11,107,520)
Net student tuition	29,325,424		29,325,424
Miscellaneous fees	829,881	$ 583,298	1,413,179
Gifts, pledges and bequests	3,570,930	694,663	4,265,593
Investment income	745,884	2,490,056	3,235,940
Realized and unrealized (losses) gains on investments	-	(10,790,938)	(10,790,938)
Government grants	258,404	597,820	856,224
Miscellaneous	666,725	795,108	1,461,833
Auxiliary enterprise revenues	11,228,000	-	11,228,000
	46,625,248	(5,629,993)	40,995,255
Net assets released from restrictions	1,386,783	6,073,690	7,460,473
Total revenues, gains and other support	48,012,031	443,697	48,455,728
Expenses:			
Instruction	16,467,514	5,838,266	22,305,780
Academic support	2,887,630	1,162,737	4,050,367
Student service	7,833,602	1,449,941	9,283,543
Auxiliary enterprises	9,753,152	1,530,146	11,283,298
Management and general	5,499,343	1,562,462	7,061,805
Fund raising	1,201,362	145,324	1,346,686
Student financial aid	2,046,962	11,253	2,058,215
Research	-	317,151	317,151
Miscellaneous	-	39,843	39,843
Total expenses	45,689,565	12,057,123	57,746,688
Change in net assets before capital items and additions to reserves	2,322,466	(11,613,426)	(9,290,960)
Capital items and additions to reserves	(2,322,466)	2,322,466	-
Change in net assets	-	(9,290,960)	(9,290,960)
Net assets at beginning of year	-	127,272,836	127,272,836
Net assets at end of year	$ -	$ 117,981,876	$ 117,981,876

See accompanying notes.

Temporarily Restricted	Permanently Restricted	Grand Total
		$ 40,432,944
		(11,107,520)
		29,325,424
		1,413,179
$ 26,952,629	$ 3,508,706	34,726,928
1,782,128	119,673	5,137,741
46,264	24,647	(10,720,027)
-	-	856,224
191,533	52,425	1,705,791
-	-	11,228,000
28,972,554	3,705,451	73,673,260
(7,496,844)	36,371	-
21,475,710	3,741,822	73,673,260
-	-	22,305,780
-	-	4,050,367
-	-	9,283,543
-	-	11,283,298
-	-	7,061,805
-	-	1,346,686
-	-	2,058,215
-	-	317,151
-	-	39,843
-	-	57,746,688
21,475,710	3,741,822	15,926,572
-	-	-
21,475,710	3,741,822	15,926,572
27,900,586	73,511,415	228,684,837
$ 49,376,296	$ 77,253,237	$ 244,611,409

Kenyon College

Consolidated Statement of Activities

Year ended June 30, 2001

	Unrestricted Current Operations	Unrestricted Internally Designated	Subtotal Unrestricted
Revenues, gains and other support:			
Student tuition	$ 38,661,636		$ 38,661,636
Less: Unfunded student financial aid	(10,578,725)		(10,578,725)
Net student tuition	28,082,911		28,082,911
Miscellaneous fees	837,351	$ 573,944	1,411,295
Gifts, pledges and bequests	2,889,175	865,845	3,755,020
Investment income	1,093,834	3,102,121	4,195,955
Realized and unrealized (losses) gains on investments	-	(12,032,337)	(12,032,337)
Government grants	270,101	339,562	609,663
Miscellaneous	559,858	221,457	781,315
Auxiliary enterprise revenues	11,032,106	-	11,032,106
	44,765,336	(6,929,408)	37,835,928
Net assets released from restrictions	1,790,008	5,215,026	7,005,034
Total revenues, gains and other support	46,555,344	(1,714,382)	44,840,962
Expenses:			
Instruction	15,022,996	5,342,831	20,365,827
Academic support	2,796,195	1,209,085	4,005,280
Student service	7,103,490	1,378,308	8,481,798
Auxiliary enterprises	9,821,821	1,709,193	11,531,014
Management and general	4,785,201	878,301	5,663,502
Fund raising	1,023,983	518,957	1,542,940
Student financial aid	1,881,988	12,356	1,894,344
Research	-	294,128	294,128
Miscellaneous	-	43,475	43,475
Total expenses	42,435,674	11,386,634	53,822,308
Change in net assets before capital items and additions to reserves	4,119,670	(13,101,016)	(8,981,346)
Capital items and additions to reserves	(4,119,670)	4,119,670	-
Change in net assets	-	(8,981,346)	(8,981,346)
Net assets at beginning of year	-	136,254,182	136,254,182
Net assets at end of year	$ -	$ 127,272,836	$ 127,272,836

See accompanying notes.

Temporarily Restricted	Permanently Restricted	Grand Total
		$ 38,661,636
		(10,578,725)
		28,082,911
		1,411,295
$ 8,862,130	$ 4,907,319	17,524,469
2,373,830	170,640	6,740,425
96,723	520,641	(11,414,973)
-	-	609,663
81,012	(41,614)	820,713
-	-	11,032,106
11,413,695	5,556,986	54,806,609
(8,033,941)	1,028,907	-
3,379,754	6,585,893	54,806,609
-	-	20,365,827
-	-	4,005,280
-	-	8,481,798
-	-	11,531,014
-	-	5,663,502
-	-	1,542,940
-	-	1,894,344
-	-	294,128
-	-	43,475
-	-	53,822,308
3,379,754	6,585,893	984,301
-	-	-
3,379,754	6,585,893	984,301
24,520,832	66,925,522	227,700,536
$ 27,900,586	$ 73,511,415	$ 228,684,837

Kenyon College

Consolidated Statements of Cash Flows

	Year ended June 30 2002	2001
Operating activities		
Change in net assets	**$ 15,926,572**	$ 984,301
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization expense	**4,516,830**	4,175,417
Loss on disposal of land, equipment and other fixed assets	**3,646**	12,662
Realized and unrealized (gains) losses	**10,720,027**	11,414,973
Contributions for permanently restricted purposes	**(4,391,739)**	(5,285,197)
Changes in operating assets and liabilities:		
Accounts and interest receivable	**(93,489)**	(250,160)
Loans receivable	**(80,142)**	(34,128)
Present value of pledges receivable	**(16,971,395)**	(594,587)
Interests in charitable trusts	**536,145**	781,579
Inventories	**(10,800)**	17,033
Other assets	**23,715**	6,377
Accounts payable, accrued expenses and agency funds	**327,760**	(367,956)
Deposits and advances	**(689,511)**	230,010
Liability for postretirement benefits	**882,500**	573,400
Annuities, life income, pooled life income and unitrusts payable	**56,137**	513,233
Funds held for others	**(6,471)**	5,854
Government loan funds	**21,945**	17,469
Net cash provided from operating activities	**10,771,730**	12,200,280
Investing activities		
Purchases of land, buildings, equipment and furniture	**(16,331,336)**	(13,434,233)
Purchases of library books and periodicals	**(698,435)**	(656,178)
Purchase of securities	**(138,060,195)**	(80,435,528)
Sale of securities	**136,532,458**	42,156,760
Increased investment in limited partnerships	**(5,032,807)**	(6,491,851)
Net cash used in investing activities	**(23,590,315)**	(58,861,030)
Financing activities		
Contributions for permanently restricted purposes	**4,391,739**	5,285,197
Payments on capital leases	**(490,000)**	(470,000)
Net cash provided by financing activities	**3,901,739**	4,815,197
Net decrease in cash and cash equivalents	**(8,916,846)**	(41,845,553)
Cash and cash equivalents at the beginning of the year	**17,129,345**	58,974,898
Cash and cash equivalents at the end of the year	**$ 8,212,499**	$ 17,129,345

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, and the Philander Chase Corporation 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.

Interests in Charitable 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. The College's share of interests in perpetual trusts is recorded at fair market 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)

Net Assets

Net assets are classified into three categories: unrestricted net assets which have no donor-imposed restrictions, temporarily restricted net assets which have donor-imposed restrictions that will expire in the future, and permanently restricted net assets which have donor-imposed restrictions which do not expire.

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

Irrevocable charitable remainder trusts and charitable lead 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 the straight-line method 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 $3,606,211.

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, 2002		
	Cost	**Fair Value**	**Unrealized Appreciation (Depreciation)**
Equity investments:			
Common stocks	**$71,702,992**	**$68,811,899**	**$(2,891,093)**
Preferred stocks	**35,754**	**35,569**	**(185)**
Hedge funds	**22,498,192**	**23,877,326**	**1,379,134**
Private equity	**30,191,731**	**25,265,712**	**(4,926,019)**
	124,428,669	**117,990,506**	**(6,438,163)**
Fixed income investments	**62,256,726**	**62,510,234**	**253,508**
	$ 186,685,395	**$180,500,740**	**$ (6,184,655)**

3. Investments (continued)

	June 30, 2001		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Equity investments:			
Common stocks	$73,846,939	$74,966,906	$1,119,967
Preferred stocks	0	0	0
Hedge funds	22,510,306	23,383,681	873,375
Private equity	32,764,847	30,043,940	(2,720,907)
	129,122,092	128,394,527	(727,565)
Fixed income investments	55,489,734	56,265,697	775,963
	$ 184,611,826	$184,660,224	$ 48,398

The composition of investment return is as follows:

	Fiscal year ended June 30	
	2002	**2001**
Investment income (interest and dividends)	**$ 5,137,740**	$ 6,740,425
Realized and unrealized gains/(losses)	**(10,720,027)**	(11,414,973)
	$ (5,582,287)	$ (4,674,548)

Investment income is shown net of investment expenses of approximately $933,000 for the year ended June 30, 2002 and $865,000 for the year ended June 30, 2001.

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	
	2002	**2001**
Cost	**$100,441,839**	$103,974,945
Market value	**94,270,998**	102,643,097
Number of units	**261,277**	250,709
Market value per unit	**$360.81**	$409.41

The 2002 average annual earnings per unit amounted to $15.94 for Fund A.

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

	Market	**Cost**	**Excess of Market Value Over Cost**
June 30, 2002:			
End of year	$126,771,277	$133,375,008	$ (6,603,731)
Beginning of year	136,521,630	137,093,069	(572,065)
Change in unrealized gain for the year			(6,031,666)
Net realized gains for the year			(4,573,351)
Total			(10,605,017)
Interest and dividends, net of trustee fees			2,154,108
Total return			($8,450,909)

4. Commitment to Limited Partnerships

The College was obligated at June 30, 2002 to invest additional funds in limited partnership investments in the amount of $36,354,787 at the direction of the general partners.

5. Pledges Receivable

As of June 30, 2002 the College had received unconditional promises totaling $31,060,518 on which management has determined that no allowance for uncollectible promises is necessary.

	Temporarily Restricted	Permanently Restricted	Total
Within one year	$1,121,987	$ 302,467	$1,424,454
One to two years	1,642,159	271,544	1,913,703
Two to three years	465,770	709,421	1,175,191
Three to four years	1,407,076	1,349,955	2,757,031
Four to five years	19,749,089	1,272,726	21,021,815
More than five years (estate notes)	652,560	2,115,765	2,768,325
	$25,038,641	$6,021,878	$31,060,519

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 1.89% to 5.68%.

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 $1,937,815 and $1,671,637 during the years ended June 30, 2002 and 2001, respectively, 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. Employees become eligible at age 59 ½. 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	
	2002	**2001**
Net Periodic Postretirement Benefit Cost		
Service cost	**$280,600**	$211,900
Interest cost	**604,800**	457,700
Amortization of prior service cost	**44,300**	44,300
Amortization of unrecognized loss	**233,600**	125,400
Total net periodic postretirement benefit cost	**$1,163,300**	$839,300
Change in Benefit Obligation		
Benefit obligation at beginning of year	**$6,671,700**	$5,231,500
Service cost	**280,600**	211,900
Interest cost	**604,800**	457,700
Actuarial loss	**3,047,700**	1,036,500
Benefits paid	**(280,800)**	(265,900)
Benefit obligation at end of year	**10,324,000**	6,671,700
Plan assets	**–**	–
Funded status	**(10,324,000)**	(6,671,700)
Unrecognized prior service cost	**265,800**	310,100
Unrecognized loss	**5,233,100**	2,419,000
Accrued benefit cost	**$(4,825,100)**	$(3,942,600)
Reconciliation of Accrued Benefit Cost		
Accrued benefit cost at beginning of year	**$(3,942,600)**	$(3,369,200)
Estimated net benefit payments	**280,800**	265,900
Annual expense	**(1,163,300)**	(839,300)
Accrued benefit cost at end of year	**$(4,825,100)**	$(3,942,600)

7. Retirement and Postretirement Benefit Plans (continued)

	Fiscal year ended June 30	
	2002	**2001**
Actuarial Assumptions		
Weighted average discount rate	**7.50%**	7.50%
Medical trend:		
For next year	**6.00%**	6.50%
Thereafter	**5.50%**	6.00%
Ultimate trend rate	**4.50%**	4.50%
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, 2002 would increase by $1,682,900 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Expense (NPPBE) for fiscal year 2002 would increase by $165,600. If the medical trend rates were to decrease by 1 percent for each year, the APBO, as of June 30, 2002 would decrease by $1,371,200 and the sum of the service and interest cost components of the NPPBE for fiscal year 2002 would decrease by $132,100.

8. Capital Lease Obligations

As of June 30, 2002 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 ($68,453,500 net of accumulated depreciation of $27,441,300 as of June 30, 2002) as buildings or construction work in progress and the liabilities as capital lease obligations. Amortization of these assets is included in depreciation expense.

8. Capital Lease Obligations (continued)

All revenues generated by the leased facilities are pledged as collateral for retirement of the bonds. At June 30, 2002, certain assets having a market value of $197,866 were on deposit to guarantee interest and principal payment on the bonds.

Interest capitalized during the years ended June 30, 2002 and 2001 in connection with the College's construction projects was $214,677 and $651,000 respectively.

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	$ 485,000
4.60% to 5.375% Bonds issued in 1993, callable after 2003 maturing through 2016	9,315,000
Total	$9,800,000

The amount of rent paid by the College on its fixed rate bonds for the year ended June 30, 2002 was $1,003,082 of which $490,000 represents principal and $513,082 represents interest. At June 30, 2002, 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:

2003	$ 1,002,628
2004	995,552
2005	996,820
2006	1,000,652
2007	987,375
Remaining amount due	8,997,648
	13,980,675
Amount representing interest	4,180,675
Fixed rate bonds outstanding	$9,800,000

8. 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, 2002 was 3.23 percent. The amount of rent paid (which represents interest) was $142,893 for the fiscal year ended June 30, 2002. 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 14, 2004.

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, 2002 was 3.16 percent. The amount of rent paid (which represents interest) was $361,642 for the fiscal year ended June 30, 2002. 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.

8. Capital Lease Obligations (continued)

Variable Interest Rate Bonds (continued)

The 1999 Bonds

In November 1999, the College issued variable rate, multi-mode bonds with a par value of $29,000,000. Since the issue date, those bonds have traded in the weekly mode and the average interest rate on the placements through June 30, 2002 was 3.10 percent. The amount of rent paid (which represents interest) was $509,447 for the fiscal year ended June 30, 2002. The principal payment is due at maturity on November 1, 2035 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 the remarketing of the bonds. The line of credit expires November 18, 2004.

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.

9. Net Assets

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

	June 30	
	2002	**2001**
Unrestricted net assets:		
Board designated net assets:		
Funds functioning as endowment	**$63,278,170**	$77,376,742
Capital reserve	**766,926**	622,403
Major physical plant repair and replacement reserve	**1,757,166**	1,234,995
Total board designated net assets	**65,802,262**	79,234,140
Other designations of net assets:		
Equity in plant assets (at cost)	**23,221,933**	22,463,409
Management designated net assets	**28,728,978**	24,886,799
Unrestricted annuities and pooled life funds, and charitable remainder trusts	**228,703**	688,488
Total other designations of net assets	**52,179,614**	48,038,696
Total unrestricted net assets	**$117,981,876**	$127,272,836

9. Net Assets (continued)

	June 30	
	2002	**2001**
Temporarily restricted net assets:		
Pledges and trusts receivable	**$27,118,741**	$9,777,791
Life and pooled life income funds	**1,768,372**	1,748,722
Unexpended gifts and grants	**19,913,600**	15,779,895
Endowment income designated for restricted purposes	**575,583**	594,178
Total temporarily restricted net assets	**$49,376,296**	$27,900,586
Permanently restricted net assets:		
Endowment funds	**$63,493,107**	$59,144,888
Pledges and trusts receivable	**10,194,355**	11,032,089
Annuity and life income funds	**1,757,498**	1,683,155
Student loan funds	**1,808,277**	1,651,283
Total permanently restricted net assets	**$77,253,237**	$73,511,415

10. Commitments

The College has outstanding commitments of approximately $1.0 million remaining for the construction of new facilities.