

**Audited Consolidated Financial Statements and Other Financial
Information**

Kenyon College

For the years ended June 30, 2003 and 2002 with Report of Independent Auditors

Kenyon College

**Audited Consolidated Financial Statements
and Other Financial Information**

For the years ended June 30, 2003 and 2002

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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, 2003 and 2002, 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, 2003 and 2002, 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

September 25, 2003

Kenyon College

Consolidated Statements of Financial Position

	June 30	
	2003	2002
Assets		
Cash and cash equivalents	\$ 57,040,782	\$ 8,212,499
Investments	212,031,006	180,500,740
Accounts and interest receivable	2,181,705	1,899,750
Inventories	1,162,205	1,120,428
Present value of pledges receivable	21,857,723	31,060,519
Loans receivable	3,305,857	3,232,522
Interests in charitable trusts	5,354,685	5,730,042
Land	1,576,920	2,023,831
Equipment and furniture, net of accumulated depreciation of \$14,618,160 and \$13,284,513 at June 30, 2003 and 2002, respectively	6,416,422	6,535,562
Library books and periodicals, net of accumulated depreciation of \$5,456,086 and \$5,003,912 at June 30, 2003 and 2002, respectively	5,848,264	5,545,596
Buildings, net of accumulated depreciation of \$34,380,003 and \$30,020,170 at June 30, 2003 and 2002, respectively	76,762,931	76,172,750
Construction work-in-progress	10,471,466	2,591,406
Other assets	1,150,586	464,772
Total assets	\$ 405,160,552	\$ 325,090,417

See accompanying notes.

	June 30	
	2003	2002
Liabilities and net assets		
Liabilities:		
Accounts payable, accrued expenses and agency funds	\$ 5,650,046	\$ 3,156,932
Deposits and advances	1,647,824	1,753,994
Funds held for others	8,268	12,356
Liability for post-retirement benefits	6,284,447	4,825,100
Annuities, life income, pooled life income and unitrust payable	1,849,311	1,489,787
Government loan funds	1,842,974	1,840,839
Capital lease obligations	141,885,000	67,400,000
Total liabilities	<u>159,167,870</u>	<u>80,479,008</u>
Net assets:		
Unrestricted	121,409,226	117,981,876
Temporarily restricted	45,617,401	49,376,296
Permanently restricted	78,966,055	77,253,237
Total net assets	<u>245,992,682</u>	<u>244,611,409</u>
Total liabilities and net assets	<u>\$ 405,160,552</u>	<u>\$ 325,090,417</u>

Kenyon College

Consolidated Statement of Activities

Year ended June 30, 2003

	Unrestricted		Subtotal Unrestricted
	Current Operations	Internally Designated	
Revenues, gains and other support:			
Student tuition	\$ 41,845,702		\$ 41,845,702
Less: Unfunded student financial aid	(11,999,951)		(11,999,951)
Net student tuition	29,845,751		29,845,751
Miscellaneous fees	913,237	\$ 665,357	1,578,594
Gifts, pledges and bequests	3,603,169	114,781	3,717,950
Investment income	575,407	2,361,276	2,936,683
Realized and unrealized gains (losses) on investments	3,887	4,067,116	4,071,003
Government grants	299,155	453,768	752,923
Miscellaneous	762,390	384,724	1,147,114
Auxiliary enterprise revenues	11,600,248	-	11,600,248
	47,603,244	8,047,022	55,650,266
Net assets released from restrictions	864,918	8,044,676	8,909,594
Total revenues, gains and other support	48,468,162	16,091,698	64,559,860
Expenses:			
Instruction	17,456,554	5,528,630	22,985,184
Academic support	3,185,460	1,408,587	4,594,047
Student service	7,950,742	1,916,108	9,866,850
Auxiliary enterprises	10,353,339	1,806,423	12,159,762
Management and general	5,640,390	1,678,670	7,319,060
Fund raising	1,476,239	115,049	1,591,288
Student financial aid	2,195,233	18,802	2,214,035
Research		357,031	357,031
Miscellaneous		45,253	45,253
Total expenses	48,257,957	12,874,553	61,132,510
Change in net assets before capital items and additions to reserves	210,205	3,217,145	3,427,350
Capital items and additions to reserves	(210,205)	210,205	-
Change in net assets	-	3,427,350	3,427,350
Net assets at beginning of year	-	117,981,876	117,981,876
Net assets at end of year	\$ -	\$ 121,409,226	\$ 121,409,226

See accompanying notes.

Temporarily Restricted	Permanently Restricted	Grand Total
		\$ 41,845,702
		(11,999,951)
		<u>29,845,751</u>
		1,578,594
\$ 3,913,930	\$ 1,816,810	9,448,690
1,344,332	55,255	4,336,270
(10,333)	(306,464)	3,754,206
-	-	752,923
163,036	(113,049)	1,197,101
-	-	11,600,248
<u>5,410,965</u>	<u>1,452,552</u>	<u>62,513,783</u>
<u>(9,169,860)</u>	<u>260,266</u>	<u>-</u>
<u>(3,758,895)</u>	<u>1,712,818</u>	<u>62,513,783</u>
-	-	22,985,184
-	-	4,594,047
-	-	9,866,850
-	-	12,159,762
-	-	7,319,060
-	-	1,591,288
-	-	2,214,035
-	-	357,031
-	-	45,253
-	-	<u>61,132,510</u>
(3,758,895)	1,712,818	1,381,273
-	-	-
(3,758,895)	1,712,818	1,381,273
49,376,296	77,253,237	244,611,409
<u>\$ 45,617,401</u>	<u>\$ 78,966,055</u>	<u>\$ 245,992,682</u>

Kenyon College

Consolidated Statement of Activities

Year ended June 30, 2002

	Unrestricted		Subtotal Unrestricted
	Current Operations	Internally Designated	
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)
		<u>29,325,424</u>
		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
<u>28,972,554</u>	<u>3,705,451</u>	<u>73,673,260</u>
(7,496,844)	36,371	-
<u>21,475,710</u>	<u>3,741,822</u>	<u>73,673,260</u>
-	-	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
-	-	<u>57,746,688</u>
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
<u>\$ 49,376,296</u>	<u>\$ 77,253,237</u>	<u>\$ 244,611,409</u>

Kenyon College

Consolidated Statements of Cash Flows

	Year ended June 30	
	2003	2002
Operating activities		
Change in net assets	\$ 1,381,273	\$ 15,926,572
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization expense	4,638,037	4,516,830
Loss on disposal of land, equipment and other fixed assets	630,593	3,646
Realized and unrealized (gains) losses	(3,754,206)	10,720,027
Contributions for permanently restricted purposes	(2,567,441)	(4,391,739)
Changes in operating assets and liabilities:		
Accounts and interest receivable	(281,955)	(93,489)
Loans receivable	(73,335)	(80,142)
Present value of pledges receivable	9,202,796	(16,971,395)
Interests in charitable trusts	375,357	536,145
Inventories	(41,777)	(10,800)
Other assets	(959,727)	23,715
Accounts payable, accrued expenses and agency funds	2,493,114	327,760
Deposits and advances	(106,170)	(689,511)
Liability for postretirement benefits	1,459,347	882,500
Annuities, life income, pooled life income and unitrusts payable	359,524	56,137
Funds held for others	(4,088)	(6,471)
Government loan funds	2,135	21,945
Net cash provided from operating activities	<u>12,753,477</u>	<u>10,771,730</u>
Investing activities		
Purchases of land, buildings, equipment and furniture	(13,290,839)	(16,331,336)
Purchases of library books and periodicals	(754,842)	(698,435)
Proceeds from sales of land	899,975	-
Purchase of securities	(250,104,594)	(138,060,195)
Sale of securities	225,577,329	136,532,458
Increased investment in limited partnerships	(3,304,664)	(5,032,807)
Net cash used in investing activities	<u>(40,977,635)</u>	<u>(23,590,315)</u>
Financing activities		
Contributions for permanently restricted purposes	2,567,441	4,391,739
Payments on capital leases	(515,000)	(490,000)
Proceeds from capital lease obligations	75,000,000	-
Net cash provided by financing activities	<u>77,052,441</u>	<u>3,901,739</u>
Net increase (decrease) in cash and cash equivalents	<u>48,828,283</u>	<u>(8,916,846)</u>
Cash and cash equivalents at the beginning of the year	8,212,499	17,129,345
Cash and cash equivalents at the end of the year	<u>\$ 57,040,782</u>	<u>\$ 8,212,499</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 1,206,477</u>	<u>\$ 1,527,064</u>

See accompanying notes.

Kenyon College

Notes to Consolidated Financial Statements

June 30, 2003

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.

Kenyon College

Notes to Consolidated Financial Statements (continued)

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.

Kenyon College

Notes to Consolidated Financial Statements (continued)

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.

Kenyon College

Notes to Consolidated Financial Statements (continued)

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.

Kenyon College

Notes to Consolidated Financial Statements (continued)

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.

Kenyon College

Notes to Consolidated Financial Statements (continued)

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.

Reclassifications

Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

2. Guaranteed Loans

The College offers a home mortgage loan guarantee program to certain members of its faculty and administration. Under this program, the College guarantees 100 percent of the outstanding mortgage loans until such time as the outstanding amount on each loan is reduced to 70% of the original appraised value or contract price of the property, at which time the guarantee is released. Under the program, the College has the right to purchase the mortgage loans from the lenders in the event of default by an employee. As of June 30, 2003, the College has guaranteed mortgage loans aggregating \$3,436,068.

3. Investments

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

	June 30	
	2003	2002
Equity investments:		
Common stocks	\$ 71,274,348	\$ 68,811,899
Preferred stocks	30,063	35,569
Hedge funds	55,523,832	23,877,326
Private equity	27,688,424	25,265,712
Fixed income investments	57,514,339	62,510,234
	<u>\$212,031,006</u>	<u>\$180,500,740</u>

Kenyon College

Notes to Consolidated Financial Statements (continued)

3. Investments (continued)

The composition of investment return is as follows:

	Fiscal year ended June 30	
	2003	2002
Investment income (interest and dividends)	\$ 4,336,270	\$ 5,137,740
Realized and unrealized gains/(losses)	3,754,206	(10,720,027)
	\$ 8,090,476	\$ (5,582,287)

Investment income is shown net of investment expenses of approximately \$1,111,000 for the year ended June 30, 2003 and \$933,000 for the year ended June 30, 2002.

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.

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	
	2003	2002
Cost	\$95,239,089	\$100,441,839
Market value	92,808,485	94,270,998
Number of units	268,367	261,277
Market value of unit	\$345.83	\$360.81

The 2003 average annual earnings per unit amounted to \$16.14 for Fund A.

Kenyon College

Notes to Consolidated Financial Statements (continued)

3. Investments (continued)

Pooled Endowment Assets (continued)

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

	<u>Market</u>	<u>Cost</u>	<u>Excess of Market Value Over Cost</u>
June 30, 2003:			
End of year	\$125,459,728	\$126,478,423	\$(1,018,695)
Beginning of year	\$126,771,277	\$133,375,008	<u>(6,603,731)</u>
Change in unrealized gain for the year			5,585,036
Net realized gains for the year			<u>(5,444,721)</u>
Total			140,315
Interest and dividends, net of trustee fees			<u>1,458,815</u>
Total return			<u><u>\$1,599,130</u></u>

4. Commitment to Limited Partnerships

The College was obligated at June 30, 2003 to invest additional funds in limited partnership investments in the amount of \$27,788,211 at the direction of the general partners.

Kenyon College

Notes to Consolidated Financial Statements (continued)

5. Pledges Receivable

As of June 30, 2003 the College had received unconditional promises totaling \$21,857,723 on which management has determined that no allowance for uncollectible promises is necessary.

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Within one year	\$ 1,718,142	\$ 353,733	\$ 2,071,875
One to two years	336,295	150,462	486,757
Two to three years	941,433	863,544	1,804,977
Three to four years	12,500,363	1,251,937	13,752,300
Four to five years	29,603	313,452	343,055
More than five years (estate notes)	874,459	2,524,300	3,398,759
	<u>\$16,400,295</u>	<u>\$5,457,428</u>	<u>\$21,857,723</u>

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 0.98% to 4.64%.

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 \$2,017,913 and \$1,937,815 during the years ended June 30, 2003 and 2002, 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 59½. 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. During 2003, this plan was amended to offer a second plan option with a reduced level of benefits at a lower premium.

Kenyon College

Notes to Consolidated Financial Statements (continued)

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	
	2003	2002
Net Periodic Postretirement Benefit Cost		
Service cost	\$ 380,622	\$ 280,600
Interest cost	897,396	604,800
Amortization of prior service cost	(108,457)	44,300
Amortization of unrecognized loss	722,285	233,600
Total net periodic postretirement benefit cost	\$ 1,891,846	\$ 1,163,300
 Change in Benefit Obligation		
Benefit obligation at beginning of year	\$10,324,000	\$ 6,671,700
Service cost	380,622	280,600
Interest cost	897,396	604,800
Actuarial loss	4,267,211	3,047,700
Change in plan provisions	(1,350,374)	-
Benefits paid	(432,499)	(280,800)
Benefit obligation at end of year	14,086,356	10,324,000
Plan assets	-	-
Funded status	(14,086,356)	(10,324,000)
Unrecognized prior service cost	(976,117)	265,800
Unrecognized loss	8,776,026	5,233,100
Accrued benefit cost	\$(6,284,447)	\$ (4,825,100)
 Reconciliation of Accrued Benefit Cost		
Accrued benefit cost at beginning of year	\$(4,825,100)	\$(3,942,600)
Estimated net benefit payments	432,499	280,800
Annual expense	(1,891,846)	(1,163,300)
Accrued benefit cost at end of year	\$(6,284,447)	\$(4,825,100)

Kenyon College

Notes to Consolidated Financial Statements (continued)

7. Retirement and Postretirement Benefit Plans (continued)

	Fiscal year ended June 30	
	2003	2002
Actuarial Assumptions		
Weighted average discount rate	6.00%	7.50%
Medical trend:		
For next year	8.50%	6.00%
Thereafter	8.00%	5.50%
Ultimate trend rate	4.50%	4.50%
Year reached	2012	2011

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, 2003 would increase by \$1,791,417 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Expense (NPPBE) for fiscal year 2003 would increase by \$232,403. If the medical trend rates were to decrease by 1 percent for each year, the APBO, as of June 30, 2003 would decrease by \$1,474,611 and the sum of the service and interest cost components of the NPPBE for fiscal year 2003 would decrease by \$186,316.

8. Capital Lease Obligations

As of June 30, 2003 the College had entered into five lease agreements with the Ohio Higher Educational Facility Commission (the 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 (\$79,980,388 net of accumulated depreciation of \$30,245,105 as of June 30, 2003) as buildings or construction work in progress and the liabilities as capital lease obligations. Amortization of these assets is included in depreciation expense.

Kenyon College

Notes to Consolidated Financial Statements (continued)

8. Capital Lease Obligations (continued)

All revenues generated by the leased facilities are pledged as collateral for retirement of the bonds. At June 30, 2003, certain assets having a market value of \$193,344 were on deposit to guarantee interest and principal payment on the bonds.

Interest capitalized during the years ended June 30, 2003 and 2002 in connection with the College's construction projects was \$1,588,985 and \$214,677, 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	\$ 400,000
4.80% to 5.375% Bonds issued in 1993, callable after 2003 maturing through 2016	8,885,000
	<hr/>
Total	<u>\$9,285,000</u>

The amount of rent paid by the College on its fixed rate bonds for the year ended June 30, 2003 was \$1,002,628 of which \$515,000 represents principal and \$487,628 represents interest. At June 30, 2003, 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:

2004	\$ 995,552
2005	996,820
2006	1,000,652
2007	987,375
2008	899,223
Remaining amount due	<u>8,098,425</u>
	<u>12,978,047</u>
Amount representing interest	<u>3,693,047</u>
Fixed rate bonds outstanding	<u>\$ 9,285,000</u>

Kenyon College

Notes to Consolidated Financial Statements (continued)

8. Capital Lease Obligations (continued)

Variable Interest Rate Bonds

The 1992 Bonds

In December 1992, through the Commission 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, 2003 was 3.05 percent. The amount of rent paid by the College (which represents interest) was \$107,219 for the fiscal year ended June 30, 2003. 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, through the Commission 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, 2003 was 2.78 percent. The amount of rent paid by the College (which represents interest) was \$271,358 for the fiscal year ended June 30, 2003. 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.

Kenyon College

Notes to Consolidated Financial Statements (continued)

8. Capital Lease Obligations (continued)

Variable Interest Rate Bonds (continued)

The 1999 Bonds

In November 1999, through the Commission 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, 2003 was 2.61 percent. The amount of rent paid (which represents interest) was \$383,873 for the fiscal year ended June 30, 2003. 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.

The 2002 Bonds

In December 2002, through the Commission the College issued adjustable rate medium term bonds with a par value of \$75,000,000. The bond proceeds will fund the construction of a Center for Fitness, Recreation and Athletics and improving, renovating and equipping certain educational facilities. The bonds were initially issued in an adjustable rate mode. Until the end of the adjustable rate period for each principal amount, the bonds bear interest at the rates specified below:

Adjustable Rate Period Ending July 1	Principal Amount	Interest Rate
2007	\$5,000,000	3.40%
2008	5,000,000	3.75%
2009	5,000,000	4.00%
2010	5,000,000	4.30%
2011	7,500,000	4.50%
2012	6,000,000	4.60%
2013	6,000,000	4.70%
2014	8,000,000	4.85%
2015	12,500,000	4.95%
2016	15,000,000	5.05%

Kenyon College

Notes to Consolidated Financial Statements (continued)

8. Capital Lease Obligations (continued)

Variable Interest Rate Bonds (continued)

The 2002 Bonds (continued)

After the end of each adjustable rate period, the bonds may operate at any time in one of three modes: daily, weekly, or adjustable. The blended interest rate on the placements through June 30, 2003 was 4.476 percent. The amount of rent expense (which represents interest) was \$1,916,340 for the fiscal year ended June 30, 2003. The principal payment is due at maturity on July 1, 2037 unless redeemed under the provisions of the bond. Future minimum lease payments, which represent interest, are \$3,432,250 per year through the fiscal year ending June 30, 2007. Thereafter, future minimum lease payments, excluding redemptions and principal due at maturity, will vary based on the mode selected and economic conditions.

During the time that a bond operates in an initial adjustable rate period, such bond will be subject to optional redemption on the last interest payment date for such adjustable rate period.

As of June 30, 2003, cash and investments included \$30,040,560 and \$22,143,100, respectively, of unspent bond proceeds which are restricted for use in the College's construction projects.

9. Net Assets

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

	June 30	
	2003	2002
Unrestricted net assets:		
Board designated net assets:		
Funds functioning as endowment	\$ 59,433,492	\$ 63,278,170
Capital reserve	922,536	766,926
Major physical plant repair and replacement reserve	1,126,955	1,757,166
Total board designated net assets	61,482,983	65,802,262
Other designations of net assets:		
Equity in plant assets (at cost)	23,895,382	23,221,933
Management designated net assets	35,774,897	28,728,978
Unrestricted annuities and pooled life funds, and charitable remainder trusts	255,964	228,703
Total other designations of net assets	59,926,243	52,179,614
Total unrestricted net assets	\$121,409,226	\$117,981,876

Kenyon College

Notes to Consolidated Financial Statements (continued)

9. Net Assets (continued)

	June 30	
	2003	2002
Temporarily restricted net assets:		
Pledges and trusts receivable	\$18,291,467	\$27,118,741
Life and pooled life income funds	1,770,323	1,768,372
Unexpended gifts and grants	25,000,491	19,913,600
Endowment income designated for restricted purposes	555,120	575,583
Total temporarily restricted net assets	\$45,617,401	\$49,376,296
Permanently restricted net assets:		
Endowment funds	\$66,026,236	\$63,493,107
Pledges and trusts receivable	9,424,781	10,194,355
Annuity and life income funds	1,640,020	1,757,498
Student loan funds	1,875,018	1,808,277
Total permanently restricted net assets	\$78,966,055	\$77,253,237

10. Commitments

As of June 30, 2003, the College has outstanding commitments of approximately \$17.4 million remaining for the construction of new facilities.

11. Subsequent Event

In September 2003, the College entered into a transaction to refinance a portion of the 1993 Bonds through a lease agreement with the Ohio Higher Educational Facility Commission. In connection with this transaction, the Commission will issue bonds in the principal amount of \$6,435,000 with serial maturities through 2016, bearing interest at rates ranging from 3.0% to 4.5%, with an average coupon of 4.35%.