

KENYON COLLEGE
CONSOLIDATED FINANCIAL REPORT
JUNE 30, 2010 and 2009

KENYON COLLEGE

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Consolidated statements of financial position	2-3
Consolidated statements of activities	4-5
Consolidated statements of cash flows	6
Notes to consolidated financial statements	7-26

The Board of Trustees
Kenyon College
Gambier, Ohio

Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of Kenyon College as of June 30, 2010 and 2009, 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 of America. Those standards require that we plan and perform the audit 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.

As discussed in Note 1.H., the consolidated financial statements include investments, representing 25% and 27% of total assets as of June 30, 2010 and 2009, respectively, for which there is no ready market and are valued based upon fair values reported by the investment managers. Because of the inherent uncertainty of such valuations, the fair values may differ significantly from values that would have been used had a ready market for these investments existed, and the differences could be material.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kenyon College as of June 30, 2010 and 2009, and the 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 of America.



Cleveland, Ohio
October 28, 2010

KENYON COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 20,906,112	\$ 42,906,857
Equity investments	169,539,536	142,064,548
Fixed income investments	149,172,138	120,788,183
Accounts and interest receivable	2,807,059	2,086,856
Inventories	622,626	683,189
Present value of pledges receivable	36,241,423	40,399,723
Loans receivable	5,628,828	5,228,288
Interests in charitable trusts	2,700,575	2,625,050
Land	1,700,694	1,589,553
Equipment and furniture, net of accumulated depreciation of \$14,908,596 and \$13,659,242 at June 30, 2010 and 2009, respectively	9,317,534	9,651,412
Library books and periodicals, net of accumulated depreciation of \$9,673,791 and \$8,946,125 at June 30, 2010 and 2009, respectively	8,517,890	8,184,444
Buildings and building improvements, net of accumulated depreciation of \$61,048,008 and \$59,311,464 at June 30, 2010 and 2009, respectively	172,850,779	176,481,511
Construction work-in-progress	15,229,791	9,799,292
Other assets	<u>3,971,461</u>	<u>3,219,838</u>
 Total assets	 <u>\$ 599,206,446</u>	 <u>\$ 565,708,744</u>

The accompanying notes are an integral part of these financial statements.

KENYON COLLEGE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable, accrued expenses and agency funds	\$ 8,685,296	\$ 5,858,950
Fair value of interest rate swaps	5,999,473	5,748,559
Deposits and advances	3,046,917	3,356,881
Liability for post-retirement benefits	4,581,197	4,130,914
Annuities, life income, pooled life income and unitrust payable	3,378,153	3,621,935
Government loan funds	1,880,676	1,866,416
Capital lease obligations, net	188,897,483	176,474,553
Total liabilities	<u>216,469,195</u>	<u>201,058,208</u>
NET ASSETS		
Unrestricted	206,435,445	189,364,712
Temporarily restricted	44,174,057	54,294,925
Permanently restricted	132,127,749	120,990,899
Total net assets	<u>382,737,251</u>	<u>364,650,536</u>
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 599,206,446</u>	<u>\$ 565,708,744</u>

The accompanying notes are an integral part of these financial statements.

KENYON COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2010
(With Comparative Totals for Year Ended June 30, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
OPERATING REVENUES					
Tuition and mandatory fees	\$ 64,522,299			\$ 64,522,299	\$ 62,314,760
Less: Financial aid	<u>(21,211,368)</u>			<u>(21,211,368)</u>	<u>(19,028,756)</u>
Net tuition and mandatory fees	43,310,931			43,310,931	43,286,004
Auxiliary enterprise revenues	16,357,223			16,357,223	14,877,893
Investment return designated for operations	15,732,532	\$ 1,681,236		17,413,768	17,438,190
Private gifts and grants	5,456,998	3,198,622		8,655,620	11,459,348
Government grants	711,733			711,733	723,619
Miscellaneous fees	1,514,016			1,514,016	652,132
Other income	1,317,161	115,977		1,433,138	1,604,988
Net assets released from restrictions	<u>12,983,103</u>	<u>(12,983,103)</u>		-	-
Total operating revenues	97,383,697	(7,987,268)		89,396,429	90,042,174
OPERATING EXPENSES					
Instruction	31,163,036			31,163,036	29,967,697
Student services	18,727,710			18,727,710	19,900,569
Academic support	5,894,121			5,894,121	5,930,927
Research	280,206			280,206	393,258
Institutional support	8,836,269			8,836,269	9,093,917
Fund raising	2,420,443			2,420,443	2,441,864
Auxiliary enterprises	<u>17,896,813</u>			<u>17,896,813</u>	<u>17,040,960</u>
Total operating expenses	85,218,598			85,218,598	84,769,192
Change in net assets from operating activities	12,165,099	(7,987,268)		4,177,831	5,272,982
NON-OPERATING ACTIVITIES					
Contributions and pledges	464,335	1,655,477	\$ 9,993,584	12,113,396	7,670,775
Investment return, less amounts designated for operations	3,999,209	1,645,001	537,877	6,182,087	(69,536,147)
Loss on interest rate swap	(250,914)			(250,914)	(7,390,352)
Loss on early extinguishment of debt	(2,638,377)			(2,638,377)	-
Net change in annuity and life income funds	(710)	(10,211)	309,125	298,204	272,785
Loss on disposal of property and equipment	(1,889,993)			(1,889,993)	(231,560)
Miscellaneous	13,159		81,322	94,481	6,710
Net assets released from restrictions	<u>5,208,925</u>	<u>(5,423,867)</u>	<u>214,942</u>	-	-
Change in net assets from non-operating activities	4,905,634	(2,133,600)	11,136,850	13,908,884	(69,207,789)
CHANGE IN NET ASSETS	17,070,733	(10,120,868)	11,136,850	18,086,715	(63,934,807)
NET ASSETS AT BEGINNING OF YEAR	<u>189,364,712</u>	<u>54,294,925</u>	<u>120,990,899</u>	<u>364,650,536</u>	<u>428,585,343</u>
NET ASSETS AT END OF YEAR	<u>\$206,435,445</u>	<u>\$ 44,174,057</u>	<u>\$132,127,749</u>	<u>\$382,737,251</u>	<u>\$364,650,536</u>

The accompanying notes are an integral part of these financial statements.

KENYON COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total
OPERATING REVENUES				
Tuition and mandatory fees	\$ 62,314,760			\$ 62,314,760
Less: Financial aid	<u>(19,028,756)</u>			<u>(19,028,756)</u>
Net tuition and mandatory fees	43,286,004			43,286,004
Auxiliary enterprise revenues	14,877,893			14,877,893
Investment return designated for operations	16,059,597	\$ 1,378,593		17,438,190
Private gifts and grants	5,798,120	5,661,228		11,459,348
Government grants	723,619			723,619
Miscellaneous fees	622,457	29,675		652,132
Other income	1,484,007	120,981		1,604,988
Net assets released from restrictions	<u>13,733,432</u>	<u>(13,733,432)</u>		<u>-</u>
Total operating revenues	96,585,129	(6,542,955)		90,042,174
OPERATING EXPENSES				
Instruction	29,967,697			29,967,697
Student services	19,900,569			19,900,569
Academic support	5,930,927			5,930,927
Research	393,258			393,258
Institutional support	9,093,917			9,093,917
Fund raising	2,441,864			2,441,864
Auxiliary enterprises	<u>17,040,960</u>			<u>17,040,960</u>
Total operating expenses	<u>84,769,192</u>			<u>84,769,192</u>
Change in net assets from operating activities	11,815,937	(6,542,955)		5,272,982
NON-OPERATING ACTIVITIES				
Contributions and pledges		2,824,569	\$ 4,846,206	7,670,775
Investment return, less amounts designated for operations	(66,997,777)	(1,176,266)	(1,362,104)	(69,536,147)
Loss on interest rate swap	(7,390,352)			(7,390,352)
Net change in annuity and life income funds	(65,440)	89,876	248,349	272,785
Loss on disposal of property and equipment	(231,560)			(231,560)
Miscellaneous	(59,115)		65,825	6,710
Net assets released from restrictions	<u>1,750,331</u>	<u>(2,477,146)</u>	<u>726,815</u>	<u>-</u>
Change in net assets from non-operating activities	<u>(72,993,913)</u>	<u>(738,967)</u>	<u>4,525,091</u>	<u>(69,207,789)</u>
CHANGE IN NET ASSETS	(61,177,976)	(7,281,922)	4,525,091	(63,934,807)
NET ASSETS AT BEGINNING OF YEAR	253,692,299	58,427,236	116,465,808	428,585,343
RECLASSIFICATION OF NET ASSETS	<u>(3,149,611)</u>	<u>3,149,611</u>		<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$189,364,712</u>	<u>\$ 54,294,925</u>	<u>\$120,990,899</u>	<u>\$364,650,536</u>

The accompanying notes are an integral part of these financial statements.

KENYON COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 18,086,715	\$ (63,934,807)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	8,154,887	8,091,378
Amortization of bond premiums	(1,937)	(9,361)
Change in fair value of interest rate swap	250,914	7,390,352
Loss on disposal of property and equipment	1,889,993	231,560
Realized and unrealized (gains) losses	(17,266,361)	56,024,686
Contributions for permanently restricted purposes	(7,070,523)	(5,929,452)
Changes in operating assets and liabilities:		
Accounts and interest receivable	(720,203)	(706,038)
Inventories	60,563	(109,732)
Present value of pledges receivable	4,158,300	3,690,384
Loans receivable	(400,540)	(250,998)
Interests in charitable trusts	(75,525)	834,833
Other assets	(751,623)	(29,311)
Accounts payable, accrued expenses and agency funds	2,826,346	(3,430,554)
Deposits and advances	(309,964)	(64,980)
Liability for postretirement benefits	450,283	212,362
Annuities, life income, pooled life income and unitrusts payable	(243,782)	(290,557)
Government loan funds	14,260	7,746
Net cash provided by operating activities	9,051,803	1,727,511
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings, equipment and furniture	(10,912,853)	(12,561,117)
Purchases of library books and periodicals	(1,042,503)	(1,071,965)
Purchase of securities	(129,413,599)	(79,523,015)
Sale of securities	102,852,657	123,929,468
Increased investment in limited partnerships	(12,031,640)	(26,214,975)
Change in restricted bond proceeds	-	3,350,217
Net cash (used in) provided by investing activities	(50,547,938)	7,908,613
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for permanently restricted purposes	7,070,523	5,929,452
Payments on capital leases	(665,000)	(630,000)
Cash payments for retirement of bonds	(87,100,000)	-
Issuance of bonds	100,189,867	-
Net cash provided by financing activities	19,495,390	5,299,452
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(22,000,745)	14,935,576
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	42,906,857	27,971,281
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 20,906,112	\$ 42,906,857
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 5,688,478	\$ 6,348,725

The accompanying notes are an integral part of these financial statements.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

- A. *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.
- B. *Use of Estimates* – Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.
- C. *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. All significant intercompany accounts and transactions have been eliminated.
- D. *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.
- E. *Fair Values of Financial Instruments* – GAAP provides a framework for measuring fair value and requires a three level hierarchy for disclosure to show the extent and the level of judgment used to estimate fair value measurements related to financial instruments:

Level 1 – Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets or liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data.

Level 3 – Uses inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models and market assumptions.

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.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

E. *Fair Values of Financial Instruments (Continued)*

Equity Investments

Common Stocks

The fair values of these investments are estimated based on quoted market prices for these or similar investments, generally considered Level 1 valuations.

Alternative Investments

Hedge and Alternative Funds

Hedge and alternative funds are investments in securities where a readily verifiable fair value may not exist and/or is not available to management. Fair value of these investments is reported by management based on information provided by the investment managers. Values may be based on readily available public market data and values may also be based on estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The financial statements of the investees are audited annually by independent auditors as of December 31, the most recent being as of December 31, 2009. These assets are generally valued using Level 2 or Level 3 assumptions.

Private Equity and Real Estate

Private equity and real estate funds are investments where a readily verifiable fair value may or may not exist. Fair value in these investments is reported by management based on information provided by the investment managers, based on the College's share of the partnership's capital balance. The fair value of limited partnerships and similar nonmarketable equity interests which invest in both publicly and privately owned securities is based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determined market values. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information. The financial statements of the investees are audited annually by independent auditors as of December 31, the most recent being as of December 31, 2009. These assets are generally valued using Level 3 assumptions.

Fixed Income Investments

The fair values of these investments are estimated based on quoted market prices for these or similar investments, generally considered Level 1 valuations.

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. Because there is no market for Federal Loans, the carrying value approximates fair value.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

E. 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 are consistent with market rates. 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 on the date of the contribution. 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 market interest rates on the date of contribution and, therefore, approximates fair value. The annual payments on the annuities range from \$490 to \$45,997.

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.

The following tables set forth by level within the fair value hierarchy the College's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of June 30, 2010 and 2009. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The College's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. The tables do not include cash on hand or other assets and liabilities that are measured at historical cost or any basis other than fair value.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Fair Values of Financial Instruments (Continued)

	<u>June 30, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets					
Equity Investments					
Common Stocks	\$ 30,565,398				\$ 30,565,398
Alternative Investments:					
Hedge and Alternative Funds		\$ 8,332,456	\$ 53,076,910		61,409,366
Private Equity			55,471,025		55,471,025
Real Estate			15,311,146		15,311,146
Commodities		1,908,189	4,874,412		6,782,601
Total alternative investments	-	10,240,645	128,733,493		138,974,138
Total Equity Investments	<u>\$ 30,565,398</u>	<u>\$ 10,240,645</u>	<u>\$ 128,733,493</u>		<u>\$ 169,539,536</u>
Fixed Income Investments					
Marketable Funds	\$ 125,141,438	\$ 12,214,981			\$ 137,356,419
Alternative Funds		202,517	\$ 11,613,202		11,815,719
Total Fixed Income Investments	<u>\$ 125,141,438</u>	<u>\$ 12,417,498</u>	<u>\$ 11,613,202</u>		<u>\$ 149,172,138</u>
Interests in Charitable Trusts			\$ 2,700,575		\$ 2,700,575
Liabilities					
Interest rate swap		\$ 5,999,473			5,999,473
	<u>June 30, 2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets					
Equity Investments					
Common Stocks	\$ 5,148,295				\$ 5,148,295
Alternative Investments:					
Hedge and Alternative Funds				\$ 70,096,115	70,096,115
Private Equity				48,005,823	48,005,823
Real Estate				14,441,932	14,441,932
Commodities				4,372,383	4,372,383
Total alternative investments	-	-	-	136,916,253	136,916,253
Total Equity Investments	<u>\$ 5,148,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,916,253</u>	<u>\$ 142,064,548</u>
Fixed Income Investments					
Marketable Funds	\$ 95,943,202	\$ 11,809,962			\$ 107,753,164
Alternative Funds				\$ 13,035,019	13,035,019
Total Fixed Income Investments	<u>\$ 95,943,202</u>	<u>\$ 11,809,962</u>	<u>\$ 13,035,019</u>		<u>\$ 120,788,183</u>
Interests in Charitable Trusts	\$ 1,235,237	\$ 192,199	\$ 1,197,614		\$ 2,625,050
Liabilities					
Interest rate swap			5,748,559		5,748,559

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Fair Values of Financial Instruments (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows for the years ended June 30, 2010 and 2009:

Financial Instrument	June 30, 2010					
	Beginning Balance	Reclassification Between Levels	Purchases	Distributions	Realized/Unrealized Gains (Losses)	Ending Balance
Equity Investments						
Alternative Investments:						
Hedge and Alternative Investments	\$ 70,096,115	\$ (14,717,934)	\$ 5,000,000	\$ (3,366,473)	\$ (3,934,798)	\$ 53,076,910
Private Equity	48,005,823		8,382,109	(4,352,144)	3,435,237	55,471,025
Real Estate	14,441,932		3,877,939	(797,554)	(2,211,171)	15,311,146
Commodities	<u>4,372,383</u>	<u>(25,943)</u>	<u>671,785</u>	<u>(1,055,607)</u>	<u>911,794</u>	<u>4,874,412</u>
Total Equity Investments	136,916,253	(14,743,877)	17,931,833	(9,571,778)	(1,798,938)	128,733,493
Fixed Income Investments:						
Alternative Funds	13,035,019	(4,532,715)	1,544,932	(250,481)	1,816,447	11,613,202
Interest in Charitable Trusts	<u>1,197,614</u>	<u>1,427,436</u>		<u>(119,931)</u>	<u>195,456</u>	<u>2,700,575</u>
	<u>\$ 151,148,886</u>	<u>\$ (17,849,156)</u>	<u>\$ 19,476,765</u>	<u>\$ (9,942,190)</u>	<u>\$ 212,965</u>	<u>\$ 143,047,270</u>
	June 30, 2009					
Financial Instrument	Beginning Balance	Purchases	Distributions	Realized/Unrealized Gains (Losses)	Ending Balance	
Equity Investments						
Alternative Investments:						
Hedge and Alternative Investments	\$ 146,706,557	\$ 6,447	\$ (57,025,817)	\$ (19,591,072)	\$ 70,096,115	
Private Equity	59,149,267	2,769,706	(748,305)	(13,164,845)	48,005,823	
Real Estate	14,019,172	6,744,506	(448,374)	(5,873,372)	14,441,932	
Commodities	<u>2,189,206</u>	<u>2,472,938</u>	<u>(442,500)</u>	<u>152,739</u>	<u>4,372,383</u>	
Total Equity Investments	222,064,202	11,993,597	(58,664,996)	(38,476,550)	136,916,253	
Fixed Income Investments:						
Alternative Funds	5,806,569	8,518,038	(188,089)	(1,101,499)	13,035,019	
Interest in Charitable Trusts	<u>1,613,285</u>		<u>(38,960)</u>	<u>(376,711)</u>	<u>1,197,614</u>	
	<u>\$ 229,484,056</u>	<u>\$ 20,511,635</u>	<u>\$ (58,892,045)</u>	<u>\$ (39,954,760)</u>	<u>\$ 151,148,886</u>	

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Fair Values of Financial Instruments (Continued)

The College transferred \$19,276,592 of alternative investments from Level 3 to Level 2 valuations based upon additional guidance issued within *Fair Value Measurements* during 2010. Funds included in this were deemed to have sufficient liquidity and are traded on a published net asset valuation to merit Level 2 valuations. In addition, interests in charitable trusts of \$1,427,436 were transferred from Level 1 and Level 2 valuations due to the inability of the College to liquidate those assets.

F. *Cash Equivalents* – The College considers investments with a maturity of three months or less when purchased to be cash equivalents on the consolidated statements of financial position and for purposes of preparing the consolidated statements of cash flows. The College maintains cash and equivalent balances at various financial institutions which, at times, may exceed federally insured limits.

G. *Interest Rate Swap* – In accordance with *Accounting for Derivative Instruments and Hedging Activities*, derivative instruments (interest rate swaps) are recorded by the College on the consolidated statements of financial position at fair value. The College's interest rate swap agreement is used to manage exposure to interest rate movement by effectively changing the variable rates on the College's bonds payable to a fixed rate. The critical terms of the interest rate swap agreements and the interest-bearing debt associated with the swap agreements are similar. The interest rate swaps qualify and have been designated and accounted for as fair value hedges. Changes in fair market value of the interest rate swap are recognized as a change in net assets on the consolidated statements of activities in the period of change, following GAAP guidance specific to non-for-profit organizations (see Note 8).

H. *Investments* – Investments are carried at fair value in accordance with *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.

Alternative investments include interests in hedge funds, private equity, real estate and other alternative assets. The College held alternative investments valued at \$150,789,857 and \$149,951,272, representing 25% and 27% of the total net assets as of June 30, 2010 and 2009, respectively. Because alternative investments may not be entirely readily marketable, part of their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been reported had a ready market for such investments existed. Such differences could be material. Also see *Fair Values of Financial Instruments* section.

I. *Operations* – The consolidated statements of activities include a subtotal for the change in net assets from operations. This subtotal reflects revenues that the College received for operating purposes, including investment income derived from the College's endowment payout formula. Nonoperating activity reflects the change in appreciation/depreciation on long-term investments in excess of the amount appropriated using the endowment payout formula, contributions for endowment and plant purposes, gains or losses on the disposal of property and equipment, the net change in annuity and life income funds and other investment income.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

J. *Loans Receivable* – Loans receivable are carried at unpaid principal balances, less an allowance for uncollectible loans of \$40,000 at June 30, 2010 and 2009. Periodic evaluation of the adequacy of the allowance is based on past loan loss experience and current economic conditions. Interest income is recorded as monthly payments are received. Loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date. Interest on past due loans is not accrued and recognized only to the extent cash payments are received.

K. *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.

L. *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 *Accounting for Contributions Received and Contributions Made*, as an asset and as contribution revenue as of the date the College is notified of its interest in the irrevocable trust.

M. *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. It is the policy of the College to capitalize additions and, for replacements, to capitalize the incremental increase in cost of plant and equipment items. Maintenance, repairs and minor renewals are charged to expense when incurred.

The College recognizes depreciation on the straight-line method over the estimated useful life for each major category of assets. These estimated useful lives are summarized in the following table:

Land improvements	10-50 years
Buildings and building improvements	40 years
Equipment and furniture	3-20 years
Library books	20 years

Depreciation expense for the years ended June 30, 2010 and 2009 was \$8,154,887 and \$8,091,378, respectively.

N. *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.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- O. *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 consolidated financial statements. In July 2009, the College implemented new provisions of *Accounting for Income Taxes*, which clarify the accounting for uncertainty in income taxes recognized in an entity's financial statements. The provisions prescribe certain criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The implementation did not have a material impact on the College's consolidated financial statements. There were no unrecognized tax benefits as of the date of adoption.

As of June 30, 2010, the College's income tax returns from 2006 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

- P. *Conditional Asset Retirement Obligations – Accounting for Conditional Asset Retirement Obligations* clarified when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered the provisions of *Accounting for Conditional Asset Retirement Obligations*, specifically as it relates to its legal obligations to perform asset retirement activities on its existing properties. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the College may settle the obligations is unknown and cannot be estimated. As a result, management cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2010.
- Q. *Reclassifications* – Certain 2010 amounts have been reclassified to conform to the 2009 presentation. In addition, in accordance with *Endowments of Not-for-Profit Organizations - Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, as of July 1, 2008, the College reclassified \$3,149,611 of unrestricted net assets to temporarily restricted.
- R. *Contingencies* – The College is involved in litigation and is subject to certain claims that arise in the normal course of operations. In the opinion of management, the ultimate disposition of the litigation and claims will not have a material adverse effect on the College's operations or financial position.
- S. *Subsequent Events* – The College has evaluated subsequent events through October 28, 2010, which is the date the consolidated financial statements were issued and has determined that only the event described in Note 10 should be disclosed.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Investments

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

	June 30	
	<u>2010</u>	<u>2009</u>
Equity investments:		
Common stocks	\$ 30,565,398	\$ 5,148,295
Alternative investments:		
Hedge and alternative funds	61,409,366	70,096,115
Private equity	55,471,025	48,005,823
Real estate	15,311,146	14,441,932
Commodities	<u>6,782,601</u>	<u>4,372,383</u>
Total alternative investments	<u>138,974,138</u>	<u>136,916,253</u>
Total equity investments	169,539,536	142,064,548
Fixed income investments:		
Marketable funds	137,356,419	107,753,164
Alternative funds	<u>11,815,719</u>	<u>13,035,019</u>
Total fixed income investments	<u>149,172,138</u>	<u>120,788,183</u>
	<u>\$ 318,711,674</u>	<u>\$ 262,852,731</u>

The composition of investment return is as follows:

	Fiscal Years Ended June 30	
	<u>2010</u>	<u>2009</u>
Investment income (interest and dividends)	\$ 6,329,494	\$ 3,926,729
Realized gains (losses)	11,953,185	(18,573,412)
Unrealized gains (losses)	<u>5,313,176</u>	<u>(37,451,274)</u>
	<u>\$ 23,595,855</u>	<u>\$ (52,097,957)</u>

Investment income is shown net of investment expenses of \$3,697,570 for the year ended June 30, 2010 and \$3,303,214 for the year ended June 30, 2009.

The College was obligated at June 30, 2010 to invest additional funds in limited partnership investments in the amount of \$56,899,580 at the direction of the general partners. These capital calls may be funded through distributions from current limited partnerships, liquidations of investments currently held by the College, new gifts and/or unrestricted net assets.

Pooled Endowment Assets

The College's endowment assets consist of two groupings: 1) those funds which can be pooled together for purposes of investment and payout and 2) those funds which by donor restriction, either as to investment or payout, must be separately invested. The assets of the pooled funds consist of all investment types disclosed above and income is distributed based on a Board approved payout formula as described in Note 3.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Investments (Continued)

Pooled Endowment Assets (Continued)

The following summarizes pertinent data relating to the pooled assets that are included in the investments of the College:

	June 30	
	<u>2010</u>	<u>2009</u>
Cost	\$ 140,482,810	\$ 138,285,520
Market value	139,798,728	133,389,744
Number of units	386,481	366,775
Market value of unit	\$ 361.72	\$ 363.68

The payout rate per unit held the entire year, as calculated using the spending formula approved by the Board of Trustees (see Note 3), was \$19.67. Units received during the year received a prorated amount.

The fair value of assets associated with certain individual donor-restricted endowment funds was below the original donated value by \$5,457,062 and \$5,604,206 at June 30, 2010 and 2009, respectively.

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

	<u>Market</u>	<u>Cost</u>	<u>Excess of Market Value Over (Under) Cost</u>
June 30, 2010			
End of year	\$ 158,752,274	\$ 155,800,708	\$ 2,951,566
Beginning of year	151,055,850	153,377,889	<u>(2,322,039)</u>
Change in accumulated unrealized gain			5,273,605
Net realized gains for the year			<u>1,179,725</u>
Total			6,453,330
Interest and dividends, net of trustee fees			<u>1,948,855</u>
Total return			<u>\$ 8,402,185</u>

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Endowment Funds

The Investment Committee is charged by the Board of Trustees to oversee the investment process. For endowment funds, the objective is to achieve superior long term real total returns such that the requirements of the annual budget are met while allowing for significant growth, all within the confines of reasonable risk. In this regard, specific responsibilities include the hiring, monitoring and changing of investment managers, performance monitoring, establishing asset classes, allocation targets and ranges and rebalancing strategies. As part of its overall mission, the Investment Committee maintains a detailed *Statement of Purpose and Policies* and it regularly reviews the appropriateness of the contents in light of the current investment environment. In conjunction with the Budget and Finance Committee of the Board of Trustees, the Investment Committee recommends to the full Board spending policies in respect to the annual distribution from endowment funds.

For the year ended June 30, 2010, the College utilized a spending formula to calculate the distribution out of its investment portfolio. The formula is composed of two elements: 1) a market element adjusts annual endowment spending to the long-term sustainable target spending of 4.00% of the average actual market value of the endowment for the most recent three years. This element of the spending rate receives a 30% weighting in the spending rate calculation and 2) a spending element increases last year's spending rate by a factor for inflation (3.5%) plus budget growth (1.50%). This element of the spending rate receives a weight of 70%. The distributed earnings are considered appropriated for expenditure and recorded as net assets released from restrictions on the statement of activities as spent.

The College's endowment funds were as follows as of June 30, 2010 and 2009:

<u>June 30, 2010</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year,	\$ 47,174,232	\$ 3,238,362	\$ 100,643,256	\$ 151,055,850
Investment return:				
Investment income	418,953	1,529,902		1,948,855
Net appreciation (realized and unrealized)	<u>4,738,015</u>	<u>1,522,386</u>	<u>192,929</u>	<u>6,453,330</u>
Total investment return	5,156,968	3,052,288	192,929	8,402,185
Cash contributions	738,997		6,869,722	7,608,719
Appropriation of endowment assets for expenditure	<u>(5,446,205)</u>	<u>(1,222,686)</u>		<u>(6,668,891)</u>
Endowment assets, end of year	<u>\$ 47,623,992</u>	<u>\$ 5,067,964</u>	<u>\$ 107,705,907</u>	<u>\$ 160,397,863</u>

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Endowment Funds (Continued)

<u>June 30, 2009</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year, as reclassified	\$ 90,613,384	\$ 4,171,540	\$ 94,932,727	\$ 189,717,651
Investment return:				
Investment income	463,880	1,073,005		1,536,885
Net depreciation (realized and unrealized)	<u>(38,604,417)</u>	<u>(1,253,181)</u>		<u>(39,857,598)</u>
Total investment return	(38,140,537)	(180,176)		(38,320,713)
Cash contributions	1,122,371		5,710,529	6,832,900
Appropriation of endowment assets for expenditure	<u>(6,420,986)</u>	<u>(753,002)</u>		<u>(7,173,988)</u>
Endowment assets, end of year	<u>\$ 47,174,232</u>	<u>\$ 3,238,362</u>	<u>\$ 100,643,256</u>	<u>\$ 151,055,850</u>

Based on the College's spending formula, as of June 30, 2010 and 2009 an additional \$1,645,589 and \$1,341,932 has been appropriated for expenditure out of temporarily restricted funds.

Note 4. Pledges Receivable

As of June 30, 2010, the College had received unconditional promises to give as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Within one year	\$ 11,374,661	\$ 4,937,783	\$ 16,312,444
One to two years	2,838,417	3,363,881	6,202,298
Two to three years	1,826,566	1,337,301	3,163,867
Three to four years	1,567,900	1,283,023	2,850,923
Four to five years	1,957,900	125,000	2,082,900
More than five years (estate notes)	<u>3,447,602</u>	<u>9,060,000</u>	<u>12,507,602</u>
	23,013,046	20,106,988	43,120,034
Discount on long-term pledges	(2,015,229)	(4,670,864)	(6,686,093)
Allowances for uncollectible pledges	<u>(157,811)</u>	<u>(34,707)</u>	<u>(192,518)</u>
	<u>\$ 20,840,006</u>	<u>\$ 15,401,417</u>	<u>\$ 36,241,423</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 0.31% to 3.83%.

As of June 30, 2009, the College had received gross unconditional promises totaling \$40,399,723 net of allowances for uncollectible pledges of \$193,196 and discount on long-term pledges of \$6,175,644.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 5. Available Line of Credit

Under an unused and unsecured line of credit with a bank, the College may borrow up to \$15,000,000 at a rate of 4.0% as of June 30, 2010.

Note 6. 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, 2010, the College has guaranteed mortgage loans aggregating \$4,040,953. All loans were current as of June 30, 2010. The College deems it unlikely that the full amount of the guarantee would be called by the banks.

Note 7. Retirement and Postretirement Benefit Plans

The College has three defined contribution retirement plans which cover substantially all employees. Eligible employees may contribute a percentage of their compensation. The College contributes 9.5% of the employee's compensation for all employees who contribute a minimum deferral of 3% or 5% depending on the plan. The College's contributions to the plans were \$2,833,408 and \$2,838,847 during the years ended June 30, 2010 and 2009, respectively.

In addition to the College's defined contribution retirement plans, the College has two additional postretirement benefit 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 is met, the retiree pays the full amount of the premium.

Beginning July 1, 2007, the College changed its post-retirement health care program from a defined benefit to a defined contribution plan. Kenyon retirees will now be able to participate in the Emeriti Program, which provides health insurance through Aetna.

The second plan is a defined benefit postretirement plan which 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.

With the change to the Emeriti Program, the only remaining medical liabilities valued under *Employers' Accounting for Postretirement Benefits Other than Pensions* are those for participants who retired before June 30, 2007 who will receive subsidized premiums post age 65 and for current eligible active employees' pre age 65 coverage.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 7. Retirement and Postretirement Benefit Plans (Continued)

The College accounts for its defined benefit plans under the provisions of *Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans*. This statement requires employers to recognize in their statements of financial position the overfunded or underfunded status of defined benefit plans, measured as the difference between the fair value of plan assets and the projected benefit obligation. Employers must recognize the change in the funded status of the plan in the year in which the change occurs through unrestricted net assets.

Included in unrestricted net assets at June 30, 2010 and 2009 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of \$2,607,726 and \$2,176,333, respectively, and unrecognized net prior service credit of \$5,043,794 and \$5,693,241, respectively. The actuarial loss and prior service credit expected to be recognized during the year ended June 30, 2011 are \$178,045 and \$794,171, respectively.

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

	Fiscal Years Ended June 30	
	<u>2010</u>	<u>2009</u>
Net Periodic Postretirement Benefit Cost		
Service cost	\$ 129,422	\$ 105,031
Interest cost	247,759	252,041
Amortization of prior service cost	(780,134)	(780,134)
Amortization of unrecognized loss	<u>145,692</u>	<u>118,382</u>
Total net periodic postretirement benefit cost	<u>\$ (257,261)</u>	<u>\$ (304,680)</u>

	Fiscal Years Ended June 30	
	<u>2010</u>	<u>2009</u>
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 4,130,914	\$ 3,918,552
Service cost	129,422	105,031
Interest cost	247,759	252,041
Actuarial loss	577,085	272,817
Change in plan provisions	(130,687)	-
Benefits paid	<u>(373,296)</u>	<u>(417,527)</u>
Benefit obligation at end of year	<u>\$ 4,581,197</u>	<u>\$ 4,130,914</u>

During 2010, the plan was amended to provide benefits to the spouse and/or children for 12 months following the death of the participant. Previously, benefits would continue indefinitely provided the spouse remained unmarried.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 7. Retirement and Postretirement Benefit Plans (Continued)

Estimated future benefit payments as of June 30, 2010 are as follows:

2011	\$ 325,135
2012	360,187
2013	365,211
2014	391,396
2015	421,244
2016-2020	1,970,165

	Fiscal Years Ended June 30	
	<u>2010</u>	<u>2009</u>
Actuarial Assumptions		
Weighted average discount rate:		
Expense for the year	6.24%	6.84%
Accumulated plan benefit obligation (at year-end)	4.85%	6.24%
Medical trend:		
For next year	9.00%	9.00%
Thereafter	8.50%	8.50%
Ultimate trend rate	4.50%	4.50%
Year reached	2019	2018

The medical trend rate assumption has a significant effect on the benefit obligation and other amounts reported. If the medical trend rates were to increase by 1 percent for each year, the benefit obligation as of June 30, 2010 would increase by \$314,162 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost (NPPBC) for fiscal year 2010 would increase by \$35,097. If the medical trend rates were to decrease by 1 percent for each year, the benefit obligation as of June 30, 2010 would decrease by \$281,097 and the sum of the service and interest cost components of the NPPBC for fiscal year 2010 would decrease by \$31,097.

Note 8. Capital Lease Obligations

As of June 30, 2010, the College had entered into four 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 (\$160,006,223, net of accumulated depreciation of \$53,036,116 as of June 30, 2010) as buildings 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.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Capital Lease Obligations (Continued)

2010 Issuance of Bonds

In February 2010, the College issued Ohio Educational Facility Commission Revenue Bonds, Kenyon College 2010 (the Bonds), in the amount of \$100,665,000. These new bonds were used to refinance, in full, three variable rate bond issues:

Ohio Educational Facility Commission Adjustable Demand Revenue Bonds,
Kenyon College 1992 Project, par amount \$8,100,000;

Ohio Educational Facility Commission Revenue Bonds,
Kenyon College 1998 Project, par amount \$20,500,000;

Ohio Educational Facility Commission Adjustable Demand Revenue Bonds,
Kenyon College 1999 Project, par amount \$29,000,000

In addition, \$29,500,000 of a total \$70,000,000 of Ohio Educational Facility Commission Adjustable Medium Term Revenue Bonds, Kenyon College Project 2002, was refinanced. The \$29,500,000 which was refinanced consisted of four tranches. At June 30, 2010, the tranches were callable as follows:

July 1, 2010	\$ 5,000,000
July 1, 2011	12,500,000
July 1, 2012	6,000,000
July 1, 2013	6,000,000

The 2010 Bond Trustee received proceeds from the Bonds to be placed in an escrow account sufficient to pay both principal and interest on these tranches until they are callable. Because the escrow funds, along with any earnings on the funds, are irrevocably committed for this purpose, the \$29,500,000 is deemed to have been paid and discharged within the meaning of the Trust Agreement.

The College issued the Bonds to 1) eliminate credit renewal risk and cost risk related to the liquidity facilities with which the 1992, 1998 and 1999 Variable Rate Bonds traded; 2) eliminate liquidity facility covenant risk; 3) eliminate interest rate rollover risk on the 2002 Medium Term Revenue Bonds until July 1, 2014; and 4) provide a liquidity hedge through capitalized interest. As of June 30, 2010, the capitalized interest fund was \$10,118,469 and will provide three years of interest payments. These funds are included in the fixed income marketable funds in these consolidated financial statements.

The average coupon on the Bonds was 5.078%, the all-in cost of issuance was 5.164% and the average life was 31.81 years. The Bonds include one serial bond (maturing July 1, 2035) and three term bonds, subject to mandatory sinking fund redemption (maturing in July 1, 2039 and July 1, 2044). The bond discount of \$475,133 is being amortized over the term of the Bonds.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Capital Lease Obligations (Continued)

Summary of Bonds Outstanding

2002 Adjustable Medium Term Revenue Bonds:

Currently in three tranches callable July 1, 2014 through July 1, 2016 with rates ranging from 4.00% to 5.05% and a final maturity of July 1, 2037 - outstanding principal \$ 40,500,000

2003 Refunding Revenue Bonds:

Maturing through December 1, 2016 with rates ranging from 3.625% to 4.50% - outstanding principal 5,415,000

2006 Revenue Bonds:

Maturing through July 1, 2041 with a rate of 5.00%
outstanding principal 42,495,000
unamortized premium 290,192

2010 Revenue Bonds:

Maturing through July 1, 2044 with rates ranging from 4.75% to 5.25%
outstanding principal 100,665,000
unamortized discount (467,709)

Capital lease obligations, net \$ 188,897,483

In December 2002, the College issued adjustable rate medium term bonds with a par value of \$75,000,000. In 2006, \$5,000,000 of this issue was refunded as part of the 2006 Bonds (see below) and in 2010, \$29,500,000 of this issue was refunded as part of the 2010 Bonds (see above) leaving an outstanding par value of \$40,500,000. The bond proceeds funded the construction of the Kenyon Athletic Center and the improvement, renovation and equipping of certain educational facilities. The bonds are currently issued in a fixed rate mode. After the end of each fixed rate period, the bonds may operate at any time in one of three modes: daily, weekly or adjustable. The blended interest rate of the placements through June 30, 2010 was 4.678%. The principal payment is due at maturity on July 1, 2037 unless redeemed under provision of the bond. The minimum lease payment, which represents interest, is \$1,964,250 for the fiscal year ending June 30, 2011. Thereafter, future minimum lease payments, excluding redemptions and principal due at maturity, will vary based on the mode selected and economic conditions.

In October 2003, the College issued \$6,345,000 of revenue bonds. The proceeds of the bonds were used to refinance various previous bond issues.

In August 2006, the College issued \$42,495,000 of revenue bonds. The proceeds of the sale of the bonds were used to 1) provide funds for expanding and renovating Peirce Dining Hall, constructing a child care facility, improving and equipping the Kenyon Athletic Center and renovating and improving residential, academic and administrative facilities on the campus and 2) refund \$5,000,000 of the 2002 Bonds. The bonds were issued at a premium for a true interest cost of 4.98%. The original bond premium of \$327,636 is being amortized over the term of the bonds.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Capital Lease Obligations (Continued)

Summary of Bonds Outstanding (Continued)

The amount of rent expensed by the College on its bonds for the year ended June 30, 2010 was \$7,725,351 of which \$665,000 represents principal and \$7,060,351 represents interest. The amount of rent expensed by the College on its bonds for the year ended June 30, 2009 was \$6,956,625 of which \$630,000 represents principal and \$6,326,625 represents interest.

At June 30, 2010, future minimum payments by year and in the aggregate under these capital lease obligations consist of the following:

2011	\$ 9,527,903
2012	10,088,138
2013	10,088,419
2014	10,090,475
2015	10,121,037
Remaining amount due	<u>419,621,612</u>
	469,537,584
Amount representing interest	<u>(280,462,584)</u>
Fixed rate obligations outstanding	<u>\$ 189,075,000</u>

Interest Rate Swap Agreements

As part of a strategy to manage the College's debt position over time and decrease variable rate risk, the College entered into an interest rate swap agreement in February 2006 in which the College pays a fixed rate, 3.514%, in exchange for receiving a variable rate which is indexed to LIBOR and calculated on a notional amount of \$57,600,000. The difference between the fixed interest rate and the variable interest rate is settled on a quarterly basis. The agreement terminates in February 2026.

At the time the 2010 Bonds were issued, which refunded the College's variable rate debt with fixed rate debt, it would have cost the College approximately \$5,700,000 to terminate the 2006 swap agreement. Instead of making that out-of-pocket payment, the College entered into a second interest rate swap agreement which is the reverse of the February 2006 swap. Under the terms of this agreement, the College pays a variable rate indexed to LIBOR and receives a fixed payment of 2.67% on a notional amount of \$57,600,000. This agreement also terminates in February 2026 and effectively finances the \$5,700,000 over the remaining life of the initial swap agreement.

At June 30, 2010, the fair value of the 2006 swap was a liability of \$8,706,785 and the fair value of the 2010 swap was an asset of \$2,707,312. For the fiscal year ended June 30, 2010, the College's interest expense was increased by \$1,306,457 as a result of the interest rate swaps.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 9. Net Assets

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

	<u>2010</u>	<u>2009</u>
Unrestricted net assets		
Board designated net assets:		
Funds functioning as endowment	\$ 47,623,992	\$ 47,174,232
Reserves for capital replacement and operating budget support	<u>109,230,039</u>	<u>94,971,645</u>
Total board designated net assets	156,854,031	142,145,877
Other designations of net assets:		
Equity in plant assets (at cost)	36,261,482	47,149,334
Management designated net assets	20,019,385	5,707,749
Unfunded postretirement benefits, compensated absences and early retirement agreements	<u>(6,699,453)</u>	<u>(5,638,248)</u>
Total other designations of net assets	<u>49,581,414</u>	<u>47,218,835</u>
 Total unrestricted net assets	 <u>\$ 206,435,445</u>	 <u>\$ 189,364,712</u>

Temporarily restricted net assets were restricted as follows:

	<u>2010</u>	<u>2009</u>
Temporarily restricted net assets		
Unexpended endowment income and gifts and grants:		
Faculty and academic support	\$ 3,435,722	\$ 2,687,626
Student programs	7,215,183	14,179,975
Scholarships, prizes and awards	320,772	715,039
Plant improvements	5,467,129	2,053,162
Other programs	1,257,629	477,026
Gifts pending donor designation	<u>2,396,429</u>	<u>3,069,452</u>
Total unexpended endowment income and gifts and grants	20,092,864	23,182,280
 Present value of pledges receivable	 20,840,006	 27,889,091
Interests in charitable trusts	818,005	800,327
Life and pooled life income funds	<u>2,423,182</u>	<u>2,423,227</u>
 Total temporarily restricted net assets	 <u>\$ 44,174,057</u>	 <u>\$ 54,294,925</u>

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 9. Net Assets (Continued)

Permanently restricted net assets were restricted as follows:

	<u>2010</u>	<u>2009</u>
Permanently restricted net assets		
Endowment funds:		
Faculty and academic support	\$ 29,804,731	\$ 28,486,989
Lectureship and concert funds	999,676	976,119
Library funds	2,633,667	2,622,054
Student programs	2,203,145	2,043,358
Scholarship and prize funds	53,179,927	47,915,601
Presidency funds	3,172,865	3,172,866
Kenyon Review funds	3,240,668	3,009,389
Loan funds	3,668,711	3,640,205
General support	4,943,543	4,804,065
Other funds	<u>3,858,974</u>	<u>3,972,610</u>
Total endowment funds	107,705,907	100,643,256
Present value of pledges receivable	15,401,417	12,510,632
Interests in charitable trusts	1,882,570	1,850,293
Annuity and life income funds	3,075,785	3,279,629
Student loan funds	<u>4,062,070</u>	<u>2,707,089</u>
Total permanently restricted net assets	<u>\$ 132,127,749</u>	<u>\$ 120,990,899</u>

Note 10. Commitments

As of June 30, 2010, the College has outstanding commitments of approximately \$31.2 million remaining for the construction of new facilities. Through June 30, 2010, the College has incurred costs of approximately \$12,500,000 under these commitments which are included in construction work-in-progress on the statement of financial position.

On September 16, 2010, the College signed a contract for \$6.1 million for the construction of student residences. These commitments will be funded by the general assets of the College.