

KENYON COLLEGE
CONSOLIDATED FINANCIAL REPORT
JUNE 30, 2016 and 2015

KENYON COLLEGE

CONTENTS

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

Independent Auditors' Report

The Board of Trustees
Kenyon College
Gambier, Ohio

We have audited the accompanying consolidated financial statements of Kenyon College, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Meloney + Novotny LLC

Cleveland, Ohio
October 27, 2016

KENYON COLLEGE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 8,112,615	\$ 9,180,072
Investments	391,874,039	408,840,041
Accounts and interest receivable	2,296,730	2,030,154
Inventories	1,153,075	1,126,718
Present value of pledges receivable	29,378,848	21,777,977
Loans receivable	5,127,269	5,298,803
Interests in charitable trusts	2,321,497	2,441,443
Land, buildings, equipment, net	245,113,476	244,555,600
Other assets	<u>5,756,246</u>	<u>5,386,474</u>
 Total assets	 <u>\$ 691,133,795</u>	 <u>\$ 700,637,282</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable, accrued expenses and agency funds	\$ 12,404,164	\$ 11,601,662
Fair value of interest rate swaps	4,280,537	4,505,104
Deposits and advances	2,517,155	2,670,744
Liability for post-retirement benefits	6,095,289	6,117,534
Annuities, life income, pooled life income and unitrust payable	3,924,078	3,371,814
Government loan funds	1,600,606	1,970,255
Capital lease obligations, net	<u>191,243,500</u>	<u>192,158,893</u>
Total liabilities	222,065,329	222,396,006
 NET ASSETS		
Unrestricted	257,751,844	269,770,407
Temporarily restricted	37,841,451	46,254,164
Permanently restricted	<u>173,475,171</u>	<u>162,216,705</u>
Total net assets	<u>469,068,466</u>	<u>478,241,276</u>
 Total liabilities and net assets	 <u>\$ 691,133,795</u>	 <u>\$ 700,637,282</u>

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

KENYON COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
OPERATING REVENUES					
Tuition and mandatory fees	\$ 85,086,872			\$ 85,086,872	\$ 81,512,318
Less: Financial aid	<u>(31,774,344)</u>			<u>(31,774,344)</u>	<u>(28,577,315)</u>
Net tuition and mandatory fees	53,312,528			53,312,528	52,935,003
Auxiliary enterprise revenues	26,770,603	\$ 98,511		26,869,114	25,959,449
Investment return designated for operations	11,533,292	8,516,851		20,050,143	19,341,234
Private gifts and grants	6,689,323	6,471,647		13,160,970	8,900,870
Government grants	762,454			762,454	816,866
Miscellaneous fees	1,035,385			1,035,385	834,451
Other income	1,297,232	87,897		1,385,129	1,632,505
Net assets released from restrictions	<u>11,369,460</u>	<u>(11,369,460)</u>		-	-
Total operating revenues	112,770,277	3,805,446		116,575,723	110,420,378
OPERATING EXPENSES					
Educational and program expenses					
Instruction	42,020,723			42,020,723	41,102,884
Student services	23,447,947			23,447,947	21,653,651
Academic support	7,234,364			7,234,364	6,901,170
Research	<u>463,428</u>			<u>463,428</u>	<u>529,322</u>
Total educational and program expenses	73,166,462			73,166,462	70,187,027
Institutional support	11,455,412			11,455,412	11,475,945
Fund raising	2,915,600			2,915,600	2,790,207
Community partnership	115,819			115,819	-
Auxiliary enterprises	<u>23,098,650</u>			<u>23,098,650</u>	<u>21,820,231</u>
Total operating expenses	<u>110,751,943</u>			<u>110,751,943</u>	<u>106,273,410</u>
Change in net assets from operating activities	2,018,334	3,805,446		5,823,780	4,146,968
NON-OPERATING ACTIVITIES					
Contributions and pledges		746,222	\$ 10,585,175	11,331,397	7,468,904
Investment return, less amounts designated for operations	(15,720,016)	(10,796,589)	308,901	(26,207,704)	110,585
Change in fair value of interest rate swaps	224,567			224,567	356,812
Loss on early extinguishment of debt				-	(2,702,812)
Net change in annuity and life income funds	25,357	25,818	173,770	224,945	309,973
Loss on disposal of property and equipment	(540,928)			(540,928)	(524,119)
Miscellaneous	(94,566)		65,699	(28,867)	73,400
Net assets released from restrictions	<u>2,068,689</u>	<u>(2,193,610)</u>	<u>124,921</u>	-	-
Change in net assets from non-operating activities	<u>(14,036,897)</u>	<u>(12,218,159)</u>	<u>11,258,466</u>	<u>(14,996,590)</u>	<u>5,092,743</u>
CHANGE IN NET ASSETS	(12,018,563)	(8,412,713)	11,258,466	(9,172,810)	9,239,711
NET ASSETS AT BEGINNING OF YEAR	<u>269,770,407</u>	<u>46,254,164</u>	<u>162,216,705</u>	<u>478,241,276</u>	<u>469,001,565</u>
NET ASSETS AT END OF YEAR	<u>\$ 257,751,844</u>	<u>\$ 37,841,451</u>	<u>\$ 173,475,171</u>	<u>\$ 469,068,466</u>	<u>\$ 478,241,276</u>

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

KENYON COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
OPERATING REVENUES				
Tuition and mandatory fees	\$ 81,512,318			\$ 81,512,318
Less: Financial aid	<u>(28,577,315)</u>			<u>(28,577,315)</u>
Net tuition and mandatory fees	52,935,003			52,935,003
Auxiliary enterprise revenues	25,906,349	\$ 53,100		25,959,449
Investment return designated for operations	11,010,341	8,330,893		19,341,234
Private gifts and grants	5,845,442	3,055,428		8,900,870
Government grants	816,866			816,866
Miscellaneous fees	834,451			834,451
Other income	1,540,073	92,432		1,632,505
Net assets released from restrictions	<u>14,594,595</u>	<u>(14,594,595)</u>		-
Total operating revenues	113,483,120	(3,062,742)		110,420,378
OPERATING EXPENSES				
Educational and program expenses				
Instruction	41,102,884			41,102,884
Student services	21,653,651			21,653,651
Academic support	6,901,170			6,901,170
Research	<u>529,322</u>			<u>529,322</u>
Total educational and program expenses	70,187,027			70,187,027
Institutional support	11,475,945			11,475,945
Fund raising	2,790,207			2,790,207
Auxiliary enterprises	<u>21,820,231</u>			<u>21,820,231</u>
Total operating expenses	<u>106,273,410</u>			<u>106,273,410</u>
Change in net assets from operating activities	7,209,710	(3,062,742)		4,146,968
NON-OPERATING ACTIVITIES				
Contributions and pledges		2,852,482	\$ 4,616,422	7,468,904
Investment return, less amounts designated for operations	(3,004,352)	1,770,898	1,344,039	110,585
Change in fair value of interest rate swaps	356,812			356,812
Loss on early extinguishment of debt	(2,702,812)			(2,702,812)
Net change in annuity and life income funds	31,305	24,997	253,671	309,973
Loss on disposal of property and equipment	(524,119)			(524,119)
Miscellaneous	(70,459)		143,859	73,400
Net assets released from restrictions	<u>2,549,996</u>	<u>(2,618,352)</u>	<u>68,356</u>	-
Change in net assets from non-operating activities	<u>(3,363,629)</u>	<u>2,030,025</u>	<u>6,426,347</u>	<u>5,092,743</u>
CHANGE IN NET ASSETS	3,846,081	(1,032,717)	6,426,347	9,239,711
NET ASSETS AT BEGINNING OF YEAR	<u>265,924,326</u>	<u>47,286,881</u>	<u>155,790,358</u>	<u>469,001,565</u>
NET ASSETS AT END OF YEAR	<u>\$ 269,770,407</u>	<u>\$ 46,254,164</u>	<u>\$ 162,216,705</u>	<u>\$ 478,241,276</u>

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

KENYON COLLEGE

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (9,172,810)	\$ 9,239,711
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	10,138,477	9,977,577
Amortization of bond discount (premiums), net	(80,393)	(80,393)
Change in fair value of interest rate swaps	(224,567)	(356,812)
Loss on disposal of property and equipment	540,929	524,119
Net realized and unrealized losses (gains)	11,223,701	(13,632,556)
Contributions for permanently restricted purposes	(10,585,175)	(4,616,422)
Changes in operating assets and liabilities:		
Accounts and interest receivable	(341,717)	(88,849)
Inventories	(26,357)	(214,266)
Present value of pledges receivable	(7,600,871)	(978,372)
Loans receivable	171,534	162,812
Interests in charitable trusts	195,087	99,599
Other assets	(369,772)	(415,526)
Accounts payable, accrued expenses and agency funds	802,502	2,047
Deposits and advances	(153,589)	199,327
Liability for postretirement benefits	(22,245)	279,976
Annuities, life income, pooled life income and unitrusts payable	552,264	(306,589)
Government loan funds	(369,649)	23,472
Net cash used by operating activities	<u>(5,322,651)</u>	<u>(181,145)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of land	-	54,273
Purchases of land, buildings and equipment	(11,237,282)	(8,472,716)
Purchase of securities	(159,819,796)	(69,222,614)
Sale of securities	177,488,494	76,139,082
Increased investment in limited partnerships	(11,926,397)	(20,922,534)
Net cash used by investing activities	<u>(5,494,981)</u>	<u>(22,424,509)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for permanently restricted purposes	10,585,175	4,616,422
Payments on capital lease obligations	(835,000)	(805,000)
Cash payments for bond retirement	-	(37,758,252)
Proceeds from issuance of bonds	-	39,400,000
Proceeds from premium on bond issuance	-	1,283,465
Net cash provided by financing activities	<u>9,750,175</u>	<u>6,736,635</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>(1,067,457)</u>	<u>(15,869,019)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>9,180,072</u>	<u>25,049,091</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 8,112,615</u>	<u>\$ 9,180,072</u>

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 revenues from student tuition and fees, investment earnings, 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, have been consolidated with the accounts of the College in the accompanying consolidated financial statements. In addition, the accounts of the Kenyon Review, the College's literary periodical, the Gund Gallery, the Kokosing Nature Preserve and the Philander Chase Conservancy (all legally separate entities) have also been consolidated in the accompanying consolidated financial statements of Kenyon College due to the College's control of and financial interest in each entity. 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 within these 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 public 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. These investments also include investments in equity funds that are valued based upon the value quoted by the fund manager as validated by management and its advisors, generally considered a Level 2 valuation.

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 as validated by management and its advisors and, as such, additional quantitative disclosures are not required. 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, 2015. These assets are generally valued using Level 2 or Level 3 assumptions.

Private Equity, Real Estate and Commodities

Private equity, real estate funds and commodities are investments where a readily verifiable fair value may or may not exist. Fair value in these investments is reported by management based on readily available public market data, generally considered Level 1 valuations, or on information provided by the investment managers as validated by management and its advisors and, as such, additional quantitative disclosures are not required, 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, 2015. These assets are generally valued using Level 3 assumptions.

Fixed Income Investments

Marketable Funds

Fixed income marketable 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 readily available public market data, generally considered Level 1 valuations, or based on the College's share of the partnership's capital balance, as provided by the investment managers as validated by management and its advisors, generally considered Level 2 valuations.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Fixed Income Investments (Continued)

Alternative Funds

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 as validated by management and its advisors and, as such, additional quantitative disclosures are not required. 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, 2015. These assets are generally valued using Level 3 assumptions.

Loans Receivable

Federal Perkins Loans Receivable

The interest rates charged on Perkins loans receivable are fixed by the U.S. Department of Education. The carrying value of these loans approximates fair value.

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. Because the College does not have access to these assets on a short-term basis, these are considered Level 3 valuations.

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 \$1,325 to \$53,322.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

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

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.

Interest Rate Swaps

The fair value of the interest rate swaps is based on projected interest rates for the duration of the swaps, values that, while observable in the market, are subject to adjustment due to pricing considerations for the specific instrument. The resulting fair values are generally considered Level 2 valuations.

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, 2016 and 2015. 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.

	<u>June 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets					
Equity investments					
Common stocks	\$ 29,451,437	\$ 41,046,548			\$ 70,497,985
Alternative investments:					
Hedge and alternative funds	11,020,784	9,419,654	\$ 99,530,781		119,971,219
Private equity			71,034,032		71,034,032
Real estate	1,168,257		24,643,088		25,811,345
Commodities			10,942,590		10,942,590
Total alternative investments	<u>12,189,041</u>	<u>9,419,654</u>	<u>206,150,491</u>		<u>227,759,186</u>
Total equity investments	<u>\$ 41,640,478</u>	<u>\$ 50,466,202</u>	<u>\$ 206,150,491</u>		<u>\$ 298,257,171</u>
Fixed income investments					
Marketable funds	\$ 80,145,667				\$ 80,145,667
Alternative funds				<u>\$ 13,471,201</u>	<u>13,471,201</u>
Total fixed income investments	<u>\$ 80,145,667</u>			<u>\$ 13,471,201</u>	<u>\$ 93,616,868</u>
Interests in charitable trusts				\$ 2,321,497	\$ 2,321,497
Liabilities					
Interest rate swaps			\$ 4,280,537		\$ 4,280,537

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, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Equity investments				
Common stocks	\$ 63,478,390	\$ 11,330,129		\$ 74,808,519
Alternative investments:				
Hedge and alternative funds	294,870	27,878,834	\$ 119,864,669	148,038,373
Private equity			79,025,065	79,025,065
Real estate	1,125,592		27,894,139	29,019,731
Commodities			10,180,980	10,180,980
Total alternative investments	<u>1,420,462</u>	<u>27,878,834</u>	<u>236,964,853</u>	<u>266,264,149</u>
Total equity investments	<u>\$ 64,898,852</u>	<u>\$ 39,208,963</u>	<u>\$ 236,964,853</u>	<u>\$ 341,072,668</u>
Fixed income investments				
Marketable funds	\$ 43,089,812			\$ 43,089,812
Alternative funds			\$ 24,677,561	24,677,561
Total fixed income investments	<u>\$ 43,089,812</u>		<u>\$ 24,677,561</u>	<u>\$ 67,767,373</u>
Interests in charitable trusts			\$ 2,441,443	\$ 2,441,443
Liabilities				
Interest rate swaps		\$ 4,505,104		\$ 4,505,104

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, 2016 and 2015:

<u>Financial Instrument</u>	<u>June 30, 2016</u>				
	<u>Beginning Balance</u>	<u>Purchases</u>	<u>Distributions</u>	<u>Realized/ Unrealized Gains (Losses)</u>	<u>Ending Balance</u>
Equity investments					
Alternative investments:					
Hedge and alternative funds	\$ 119,864,669	\$ 39,500,000	\$ (60,708,763)	\$ 874,875	\$ 99,530,781
Private equity	79,025,065	8,010,604	(17,638,821)	1,637,184	71,034,032
Real estate	27,894,139	2,477,247	(8,227,783)	2,499,485	24,643,088
Commodities	<u>10,180,980</u>	<u>2,874,027</u>	<u>(719,989)</u>	<u>(1,392,428)</u>	<u>10,942,590</u>
Total equity investments	236,964,853	52,861,878	(87,295,356)	3,619,116	206,150,491
Fixed income investments:					
Alternative funds	24,677,561	1,729,735	(13,834,857)	898,762	13,471,201
Interest in charitable trusts	<u>2,441,443</u>	<u>15,000</u>	<u>(151,264)</u>	<u>16,318</u>	<u>2,321,497</u>
	<u>\$ 264,083,857</u>	<u>\$ 54,606,613</u>	<u>\$ (101,281,477)</u>	<u>\$ 4,534,196</u>	<u>\$ 221,943,189</u>

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

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

<u>Financial Instrument</u>	June 30, 2015				
	<u>Beginning Balance</u>	<u>Purchases</u>	<u>Distributions</u>	<u>Realized/Unrealized Gains (Losses)</u>	<u>Ending Balance</u>
Equity investments					
Alternative investments:					
Hedge and alternative funds	\$ 77,980,828	\$ 36,456,000		\$ 5,427,841	\$119,864,669
Private equity	73,878,225	10,840,238	\$ (16,847,355)	11,153,957	79,025,065
Real estate	34,028,746	1,873,403	(13,729,163)	5,721,153	27,894,139
Commodities	11,410,990	954,201	(952,247)	(1,231,964)	10,180,980
Total equity investments	197,298,789	50,123,842	(31,528,765)	21,070,987	236,964,853
Fixed income investments:					
Alternative funds	14,901,816	4,820,389	(2,124,408)	7,079,764	24,677,561
Interest in charitable trusts	2,541,042		(71,752)	(27,847)	2,441,443
	<u>\$214,741,647</u>	<u>\$ 54,944,231</u>	<u>\$ (33,724,925)</u>	<u>\$ 28,122,904</u>	<u>\$264,083,857</u>

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 and may exceed reported values due to outstanding checks.

G. *Interest Rate Swaps* – Derivative instruments (interest rate swaps) are recorded by the College on the consolidated statements of financial position at fair value, as described in Note 1.E. The College's interest rate swap agreements are 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 swaps 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 as described in Note 1.E. 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)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Investments (Continued)

Alternative investments include interests in hedge funds, private equity, real estate and other alternative assets. The College held alternative investments valued at \$241,230,387 and \$290,941,710, representing 35% and 42% of the total assets as of June 30, 2016 and 2015, 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 and all consolidated entities 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 nonoperating revenues and expenses.

J. *Loans Receivable* – Loans receivable, which include Perkins and Kenyon College loans, are carried at unpaid principal balances, less an allowance for uncollectible loans of \$40,000 at June 30, 2016 and 2015. 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 unrestricted revenues. Contributions of cash or other assets to be used to acquire land, buildings and equipment with such donor stipulations are reported as temporarily restricted revenues. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

L. *Interests in Charitable Trusts* – 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 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 and Equipment, Net* – 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.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

M. *Land, Buildings and Equipment, Net (Continued)*

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	3-10 years
Library books	25 years

Land, buildings and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land and land improvements	\$ 2,892,703	\$ 2,842,459
Buildings and building improvements	313,406,730	311,498,062
Equipment and furniture	32,874,230	30,153,933
Library books	24,284,158	23,254,403
Construction work in progress	<u>5,919,202</u>	<u>1,307,625</u>
	379,377,023	369,056,482
Accumulated depreciation	<u>(134,263,547)</u>	<u>(124,500,882)</u>
Net land, buildings and equipment	<u>\$ 245,113,476</u>	<u>\$ 244,555,600</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$10,138,477 and \$9,977,577, respectively.

Collections and Works of Art – Collections are not capitalized under the provisions of ASC 958-605, *Revenue Recognition-Contributions Received*. All works of art and collections are held for public exhibition, education or research; are protected, kept unencumbered, cared for and preserved; and are subject to policies governing their use. Prior to ASC 958-05 adoption, the College did capitalize works of art and collections. At June 30, 2016 and 2015, the net book value of these items is \$1,862,696 and is reflected in the equipment section of the consolidated statements of financial position.

Through June 30, 2016, the College has incurred costs of approximately \$1,462,900 under construction contracts which are included in construction work-in-progress on the consolidated statement of financial position. As of June 30, 2016, the College has outstanding commitments of approximately \$7,394,707 remaining for the construction of new facilities. Remaining construction work in progress relates to planning and architectural reviews for additional projects, for which construction contracts have not yet been executed.

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, the Kenyon Review, the Gund Gallery, the Kokosing Nature Preserve and the Philander Chase Conservancy are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as public charities described in Section 501(c)(3); accordingly, no provision for federal income taxes has been made in the consolidated financial statements. The Kenyon Inn Management Company is subject to federal income taxes, which for June 30, 2016 and 2015 were not significant to these consolidated financial statements. There were no unrecognized tax benefits as of June 30, 2016.

The income tax returns for all entities remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities, generally for three years.

P. *Conditional Asset Retirement Obligations* – Management has considered the provisions of GAAP, 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, 2016.

Q. *Reclassifications* – Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

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 27, 2016, which is the date the consolidated financial statements were available to be issued and has determined that the event described in Note 8 should be disclosed.

Note 2. Investments

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

	June 30	
	<u>2016</u>	<u>2015</u>
Equity investments:		
Common stocks	\$ 70,497,985	\$ 74,808,519
Alternative investments:		
Hedge and alternative funds	119,971,219	148,038,373
Private equity	71,034,032	79,025,065
Real estate	25,811,345	29,019,731
Commodities	<u>10,942,590</u>	<u>10,180,980</u>
Total alternative investments	<u>227,759,186</u>	<u>266,264,149</u>
Total equity investments	298,257,171	341,072,668
Fixed income investments:		
Marketable funds	80,145,667	43,089,812
Alternative funds	<u>13,471,201</u>	<u>24,677,561</u>
Total fixed income investments	<u>93,616,868</u>	<u>67,767,373</u>
	<u>\$ 391,874,039</u>	<u>\$ 408,840,041</u>

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Investments (Continued)

The composition of investment return is as follows:

	Fiscal Years Ended June 30	
	<u>2016</u>	<u>2015</u>
Investment income (interest and dividends)	\$ 5,066,140	\$ 5,819,263
Realized and unrealized (losses) gains	<u>(11,223,701)</u>	<u>13,632,556</u>
	<u>\$ (6,157,561)</u>	<u>\$ 19,451,819</u>

Investment income is shown net of investment expenses of \$1,271,192 for the year ended June 30, 2016 and \$916,823 for the year ended June 30, 2015.

The College was obligated at June 30, 2016 to invest additional funds in limited partnership investments in the amount of \$50,397,308 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 available cash.

Investment funds in equity funds and alternative investment classes are typically organized as limited partnerships. A unique characteristic of these structures is that the investment manager requests (or calls) capital commitments from the investors as investment opportunities arise and distributes capital only when investments are liquidated. Capital calls are typically made by the investment manager during years 1-5 of a fund's life while the majority of capital distributions do not occur until years 8-10 of a fund's life.

Due to the nature of alternative investments and the use of some limited partnerships and commingled vehicles in traditional asset classes (public equities and fixed income), the College contractually agrees to liquidity restrictions. The College, in response to this risk, closely monitors the liquidity of the portfolio. As of June 30, 2016, the following liquidity characteristics applied to the College's investments in equity funds and alternative investments:

<u>Liquid Within:</u>	<u>% of Investment Portfolio</u>
1 year	59.1%
3 years	10.2%
Illiquid	30.7%

Illiquid investments represent those invested in real assets and private equity limited partnerships. There is a very limited secondary market for these interests and selling them would require considerable time. The College is not actively trying to sell any of its illiquid investments at this time.

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 total returns such that the requirements of the annual budget are met, 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.

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 in Note 2 and income is distributed based on a Board approved payout formula as described below. The endowment funds with donor restrictions generally consist of mutual funds and life insurance policies.

For the year ended June 30, 2016, the College utilized a spending formula to calculate the distribution out of its pooled 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 consolidated statement of activities as spent. The College has temporarily frozen its payout amount at 2014-2015 levels, increasing only upon receipt of new gifts to the endowment.

The College's endowment funds were as follows as of June 30, 2016 and 2015:

<u>June 30, 2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year,	\$ 55,402,903	\$ 28,361,734	\$ 137,934,389	\$ 221,699,026
Investment return:				
Investment income	354,859	2,487,873	-	2,842,732
Net depreciation (realized and unrealized)	<u>(2,230,242)</u>	<u>(4,683,990)</u>	<u>-</u>	<u>(6,914,232)</u>
Total investment return	(1,875,383)	(2,196,117)		(4,071,500)
Cash contributions	2,108,486		3,427,758	5,536,244
Transfers	(113,274)	113,274	-	-
Appropriation of endowment assets for expenditure	<u>(1,892,824)</u>	<u>(8,617,263)</u>	<u>-</u>	<u>(10,510,087)</u>
Endowment assets, end of year	<u>\$ 53,629,908</u>	<u>\$ 17,661,628</u>	<u>\$ 141,362,147</u>	<u>\$ 212,653,683</u>

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Endowment Funds (Continued)

<u>June 30, 2015</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year,	\$ 56,849,711	\$ 26,501,303	\$ 133,398,549	\$ 216,749,563
Investment return:				
Investment income	453,411	2,677,625	-	3,131,036
Net (depreciation) appreciation (realized and unrealized)	<u>(112,449)</u>	<u>7,042,701</u>	<u>-</u>	<u>6,930,252</u>
Total investment return	340,962	9,720,326	-	10,061,288
Cash contributions	281,709	-	4,535,840	4,817,549
Transfers	(211,833)	211,833	-	-
Appropriation of endowment assets for expenditure	<u>(1,857,646)</u>	<u>(8,071,728)</u>	<u>-</u>	<u>(9,929,374)</u>
Endowment assets, end of year	<u>\$ 55,402,903</u>	<u>\$ 28,361,734</u>	<u>\$ 137,934,389</u>	<u>\$ 221,699,026</u>

Based on the College's spending formula, as of June 30, 2016 and 2015, an additional \$3,802,766 and \$3,609,215, respectively, has been appropriated for expenditure out of temporarily restricted funds.

The fair value of assets associated with certain individual donor-restricted endowment funds was below the original donated value by \$1,573,959 and \$1,941,992 at June 30, 2016 and 2015, respectively.

Note 4. Pledges Receivable

As of June 30, 2016, the College had received unconditional promises to give as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Within one year	\$ 4,354,059	\$ 4,178,469	\$ 8,532,528
One to two years	1,717,250	919,252	2,636,502
Two to three years	882,750	2,626,496	3,509,246
Three to four years	1,272,500	1,495,000	2,767,500
Four to five years	550,000	1,390,000	1,940,000
More than five years (estate notes)	<u>1,907,500</u>	<u>10,992,045</u>	<u>12,899,545</u>
	10,684,059	21,601,262	32,285,321
Discount on long-term pledges	<u>(587,628)</u>	<u>(2,318,845)</u>	<u>(2,906,473)</u>
	<u>\$ 10,096,431</u>	<u>\$ 19,282,417</u>	<u>\$ 29,378,848</u>

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 4. Pledges Receivable (Continued)

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 0.64% to 3.71%. Management estimates an allowance for uncollectible pledges based upon its review of outstanding pledges and historical collections. As of June 30, 2016, the allowance for uncollectible pledges was \$255,595, which is included in the discount on long-term pledges presented above.

As of June 30, 2015, the College had received gross unconditional promises totaling \$24,753,210 net of allowances for uncollectible pledges of \$267,696 and discount on long-term pledges of \$2,707,537.

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, 2016.

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% 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, 2016, the College has guaranteed mortgage loans aggregating \$3,357,010. All loans were current as of June 30, 2016. 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 \$3,487,479 and \$3,441,569 during the years ended June 30, 2016 and 2015, 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. The College makes defined contributions to the plan on behalf of eligible employees who are 35 years of age or older and have completed at least one year of service. The College's contributions are limited to 25 years or the employee's separation from employment, whichever occurs first. The College contributed \$699,368 and \$616,590 for the years ended June 30, 2016 and 2015, respectively.

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 five 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.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 7. Retirement and Postretirement Benefit Plans (Continued)

The College recognizes the overfunded or underfunded status of the defined benefit plan on its consolidated statements of financial position, measured as the difference between the fair value of plan assets and the projected benefit obligation. The College recognizes 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, 2016 and 2015 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of \$3,239,253 and \$3,088,209, respectively, and unrecognized net prior service credit of \$716,754 and \$1,401,081, respectively. The contributions, actuarial loss and prior service credit expected to be recognized during the year ended June 30, 2016 are \$419,404, \$270,270 and \$684,326, respectively.

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

	Fiscal Years Ended June 30	
	<u>2016</u>	<u>2015</u>
Net Periodic Postretirement Benefit Cost		
Service cost	\$ 245,003	\$ 228,263
Interest cost	222,309	215,686
Amortization of prior service cost	(684,327)	(684,327)
Amortization of unrecognized loss	<u>219,920</u>	<u>238,479</u>
Total net periodic postretirement benefit (cost)	<u>\$ 2,905</u>	<u>\$ (1,899)</u>

	Fiscal Years Ended June 30	
	<u>2016</u>	<u>2015</u>
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 6,117,534	\$ 5,837,558
Service cost	245,003	228,263
Interest cost	222,309	215,686
Actuarial loss	370,964	446,379
Plan participant contributions	52,731	41,220
Benefits paid	<u>(913,252)</u>	<u>(651,572)</u>
Benefit obligation at end of year	<u>\$ 6,095,289</u>	<u>\$ 6,117,534</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, 2016 are as follows:

2017	\$ 419,000
2018	408,000
2019	452,000
2020	446,000
2021	449,000
2022-2026	2,898,000

	Fiscal Years Ended June 30	
	<u>2016</u>	<u>2015</u>
Actuarial Assumptions		
Weighted average discount rate:		
Expense for the year	4.01%	3.83%
Accumulated plan benefit obligation (at year-end)	3.25%	4.01%
Medical trend:		
For next year	7.50%	7.50%
Thereafter	7.50%	7.50%
Ultimate trend rate	4.50%	4.50%
Year reached	2024	2024

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% for each year, the benefit obligation as of June 30, 2016 would increase by \$561,705 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost (NPPBC) for fiscal year 2016 would increase by \$49,875. If the medical trend rates were to decrease by 1% for each year, the benefit obligation as of June 30, 2016 would decrease by \$497,994 and the sum of the service and interest cost components of the NPPBC for fiscal year 2016 would decrease by \$43,717.

Note 8. Capital Lease Obligations

As of June 30, 2016, the College has in place 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 buildings and improvements with a cost of \$218,820,886 and accumulated depreciation of \$83,429,849 as of June 30, 2016 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)

Summary of Bonds Outstanding

The College's bonds outstanding are as follows as of June 30:

	<u>2016</u>	<u>2015</u>
<u>2003 Refunding Revenue Bonds:</u>		
Maturing through December 1, 2016 with rates ranging from 4.00% to 4.50% - outstanding principal	\$ 880,000	\$ 1,715,000
<u>2006 Revenue Bonds:</u>		
Maturing through July 1, 2041 with a rate of 5.00% outstanding principal	4,960,000	4,960,000
unamortized premium	27,311	28,403
<u>2010 Revenue Bonds:</u>		
Maturing through July 1, 2044 with rates ranging from 4.75% to 5.25% outstanding principal	100,665,000	100,665,000
unamortized discount	(378,621)	(393,469)
<u>2013 Revenue Bonds:</u>		
Maturing through July 1, 2037 with a rate of 5.00% outstanding principal	43,610,000	43,610,000
unamortized premium	899,022	941,832
<u>2015 Revenue Bonds:</u>		
Maturing through July 1, 2040 with a rate of 5.00% outstanding principal	39,400,000	39,400,000
unamortized premium	<u>1,180,788</u>	<u>1,232,127</u>
Capital lease obligations, net	<u>\$ 191,243,500</u>	<u>\$ 192,158,893</u>

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 previous bond issues. 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.

In February 2010, the College issued Ohio Educational Facility Commission Revenue Bonds, Kenyon College 2010, in the amount of \$100,665,000. These new bonds were used to refinance, in full, three variable rate bond issues. In addition, \$29,500,000 was used to advance refund previous bond issues. The 2010 bonds were issued at a discount for a true interest cost of 5.14%. The original bond discount of \$475,133 is being amortized over the average life of the bonds.

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Capital Lease Obligations (Continued)

Summary of Bonds Outstanding (Continued)

In July 2013, the College issued \$43,610,000 of revenue bonds through the Commission. The proceeds of the bonds were used to advance refund previous bond issues and provided for issuance costs. The 2013 Bond Trustee received proceeds from the bonds to be placed in an escrow account to pay both principal and interest. Because the escrow funds, along with any earnings, are irrevocably committed for this purpose, the \$40,500,000 is deemed to have been paid and discharged within the meaning of the Trust Agreement; however, the College remains obligated to resolve any shortage of principal and interest payments out of the escrow account. The bonds were issued at a premium for a true interest cost of 4.86%. The bond premium is being amortized over the term of the bonds. The bonds are subject to mandatory sinking fund redemption, maturing on July 1, 2035, 2036 and 2037. The refunding of the 2002 bonds resulted in a loss of \$3,945,957, which has been reported separately on the consolidated statements of activities.

In May 2015, the College issued \$39,400,000 of revenue bonds through the Commission. The proceeds of the bonds were used to advance refund \$37,535,000 of the 2006 bonds and provided for issuance costs. The 2015 Bond Trustee received proceeds from the bonds to be placed in an escrow account to pay both principal and interest. Because the escrow funds, along with any earnings, are irrevocably committed for this purpose, the \$37,535,000 is deemed to have been paid and discharged within the meaning of the Trust Agreement; however, the College remains obligated to resolve any shortage of principal and interest payments out of the escrow account. The bonds were issued at a premium for a true interest cost of 4.19%. The bond premium is being amortized over the term of the bonds. The bonds are subject to mandatory sinking fund redemption, maturing on July 1, 2038, 2039 and 2040. The refunding of the 2006 bonds resulted in a loss of \$2,702,812, which has been reported separately on the consolidated statements of activities.

The amount of rent paid by the College on its bonds for the year ended June 30, 2016 was \$10,065,035 of which \$835,000 represents principal and \$9,230,035 represents interest. The amount of rent paid by the College on its bonds for the year ended June 30, 2015 was \$9,442,657 of which \$805,000 represents principal and \$8,637,657 represents interest.

At June 30, 2016, future minimum payments by year and in the aggregate under these capital lease obligations consist of the following:

2017	\$ 10,155,053
2018	9,255,253
2019	9,255,253
2020	9,255,253
2021	9,255,253
Remaining amount due	<u>367,523,586</u>
	414,699,651
Amount representing interest	<u>(225,184,651)</u>
Fixed rate obligations outstanding	<u>\$ 189,515,000</u>

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Capital Lease Obligations (Continued)

Summary of Bonds Outstanding (Continued)

Subsequent to year-end, the College initiated a new bond issuance to be issued through the Commission. Proceeds will be utilized to refund the remaining outstanding balance of the 2006 Revenue Bonds as well as advance refund \$43,680,000 of the 2010 Revenue Bonds.

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. 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, 2016 and 2015, the fair value of the 2006 swap was a liability of \$13,648,452 and \$10,478,146, respectively, and the fair value of the 2010 swap was an asset of \$9,367,915 and \$5,973,042, respectively. For the fiscal years ended June 30, 2016 and 2015, the College's interest expense was increased by \$486,144 as a result of the interest rate swaps.

Note 9. Net Assets

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

	<u>2016</u>	<u>2015</u>
Unrestricted net assets		
Board designated net assets:		
Funds functioning as endowment	\$ 53,629,908	\$ 55,402,903
Reserves for capital replacement and operating budget support	<u>146,597,744</u>	<u>157,730,055</u>
Total board designated net assets	200,227,652	213,132,958
Other designations of net assets:		
Equity in plant assets	53,869,976	52,703,242
Management designated net assets	9,607,510	10,668,251
Unfunded postretirement benefits, compensated absences and early retirement agreements	<u>(5,953,294)</u>	<u>(6,734,044)</u>
Total other designations of net assets	<u>57,524,192</u>	<u>56,637,449</u>
Total unrestricted net assets	<u>\$ 257,751,844</u>	<u>\$ 269,770,407</u>

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 9. Net Assets (Continued)

Temporarily restricted net assets were restricted as follows:

	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets		
Unexpended endowment income and gifts and grants:		
Faculty and academic support	\$ 10,963,152	\$ 14,702,528
Student programs	647,897	779,794
Scholarships, prizes and awards	6,406,972	10,633,149
Plant improvements	1,278,930	959,719
Other programs	2,490,390	5,723,602
Gifts pending donor designation	<u>3,324,501</u>	<u>954,011</u>
Total unexpended endowment income and gifts and grants	25,111,842	33,752,803
Present value of pledges receivable	10,096,431	9,875,072
Life and pooled life income funds	<u>2,633,178</u>	<u>2,626,289</u>
Total temporarily restricted net assets	<u>\$ 37,841,451</u>	<u>\$ 46,254,164</u>

Temporarily restricted net assets released from restrictions for the years ended June 30, were as follows:

	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets		
Unexpended endowment income and gifts and grants:		
Faculty and academic support	\$ 5,032,693	\$ 4,864,720
Student programs	404,615	544,320
Scholarships, prizes and awards	4,379,515	4,549,234
Plant improvements	239,333	276,206
Other programs	3,022,940	2,554,567
Gifts pending donor designation	<u>367,974</u>	<u>4,305,589</u>
Total unexpended endowment income and gifts and grants	13,447,070	17,094,636
Life and pooled life income funds	<u>116,000</u>	<u>118,311</u>
Total temporarily restricted net assets	<u>\$ 13,563,070</u>	<u>\$ 17,212,947</u>

KENYON COLLEGE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 9. Net Assets (Continued)

Permanently restricted net assets were restricted as follows:

	<u>2016</u>	<u>2015</u>
Permanently restricted net assets		
Endowment funds:		
Faculty and academic support	\$ 43,490,394	\$ 41,066,846
Lectureship and concert funds	1,142,776	1,140,751
Library funds	2,678,497	2,671,059
Student programs	2,553,591	2,459,791
Scholarship and prize funds	70,182,294	69,597,963
Presidency funds	3,176,127	3,176,127
Kenyon Review funds	5,909,822	5,755,217
Loan funds	3,822,892	3,797,512
General support	5,203,931	5,105,534
Other funds	<u>3,201,823</u>	<u>3,163,589</u>
Total endowment funds	141,362,147	137,934,389
Present value of pledges receivable	19,282,417	11,902,905
Interests in charitable trusts	2,321,497	2,441,443
Annuity and life income funds	3,471,531	3,247,383
Student loan funds	<u>7,037,579</u>	<u>6,690,585</u>
Total permanently restricted net assets	<u>\$ 173,475,171</u>	<u>\$ 162,216,705</u>