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Andrew B. Evans, Vice President for Finance
Ronald R. Watts, Controller

The audited financial statements for fiscal year 1996-97 reflect a financially successful year with a total increase in net worth exceeding \$72.5 million. While this is indicative of sound financial management, the strength of the U.S. economy, low inflation and extraordinary stock market performance, very much accounted for much of the College's strong financial results. During periods of exceptional financial market movements, both upward and downward, it is important to segregate the operating performance from the investment performance.

The increase in net assets from operating activities exceeded \$10 million, due largely to exceptional alumni giving. Contributions to operating activities totaled \$15.8 million during the fiscal year, an increase of over 81% from the previous year. Private giving totaled \$13.7 million, including \$2.1 million in bequests and an anonymous \$6 million gift in memory of Dr. H.H. Kung, class of 1906. This donation in memory of Dr. Kung represents the largest single outright gift, excluding bequests, in the College's history. The unrestricted gift was designated to quasi-endowment to support the proposed new science facility project.

The large increase in net assets from non-operating activities in the amount of \$62.6 million was largely due to the strong investment performance of the endowment. Undistributed earnings and gain accounted for \$54.4 million of the net increase, while capital gifts, pledges and deferred giving netted the remaining \$8.2 million increase.

Highlights of some of this year's most significant financial and administrative achievements include:

- Our endowment reached another record high, increasing \$57.9 million dollars to a new total of \$386 million. The total return on the General Investment Pool was 19.7% net of fees.
- Mellon Bank, N. A. was selected as the new custodian bank for custody of all of Oberlin's long term investments. Management is looking forward to improved reporting capabilities and efficiencies that Mellon can offer.
- Total giving to the college continued to improve resulting in a 73.1% increase in total contributions during the fiscal year. Gifts totaled \$23.2 million versus \$13.4 a year ago.
- Enrollment statistics maintained their positive trend with improvement in the applicant pool, admit rate and yield. The applicant pool for the Arts and Sciences grew from 3,727 in 1995-96 to 3,863 in 1996-97. The admissions rate declined from 72.3% to 64.9%, and the yield increased from 24.8% to 26.8%.
- Administrative systems upgrade began during the 1996-97 fiscal year. OPUS (Oberlin Project for Unified Systems), a \$3 million multi-year project that implements the SCT Banner integrated client/server system and other auxiliary software.

In summary, Oberlin had an exceptional year financially, with the net worth of the institution increasing by 17.8%. It is important to remain cognizant that such gains are not always possible and we must remain committed to balanced budgets by controlling costs and utilization of sound business practices.

Auditor's Report

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
of Oberlin College:

We have audited the accompanying statements of financial position of Oberlin College (an Ohio corporation, not for profit) as of June 30, 1997 and 1996, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oberlin College as of June 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Cleveland, Ohio,
October 2, 1997.

Oberlin College
Statements of Financial Position
As of June 30, 1997 and 1996
(dollars in thousands)

<u>ASSETS</u>	<u>1997</u>	<u>1996</u>
Current Assets		
Cash and cash equivalents	\$ 2,701	\$ 1,087
Short-term investments	7,408	8,331
Accounts receivable, net	2,240	2,288
Inventories	596	524
Deposits and prepaid expenses	1,212	1,394
Total current assets	\$ 14,157	\$ 13,624
Pledges Receivable and Bequests in Probate	\$ 10,371	\$ 4,455
Long-Term Receivables		
Student loans	\$ 11,101	\$ 10,731
Allowance for doubtful loans	(1,266)	(1,266)
Total long-term receivables	\$ 9,835	\$ 9,465
Long-Term Investments		
Assets restricted to investment in land, buildings and equipment	\$ 18,335	\$ 18,255
Endowment funds	392,475	328,291
Annuity and life income funds	17,946	13,685
Funds held in trust by others	15,261	12,734
Total long-term investments	\$ 444,017	\$ 372,965
Property, Plant and Equipment		
Land, buildings and equipment	\$ 187,214	\$ 176,765
Construction in progress	746	534
Less: accumulated depreciation	(87,489)	(80,156)
Total property, plant and equipment	\$ 100,471	\$ 97,143
TOTAL ASSETS	\$ 578,851	\$ 497,652

The Notes to Financial Statements are an integral part of these statements.

Oberlin College
Statements of Financial Position
As of June 30, 1997 and 1996
(dollars in thousands)

<u>LIABILITIES and NET ASSETS</u>	<u>1997</u>	<u>1996</u>
Current Liabilities		
Accounts payable	\$ 9,335	\$ 2,850
Current portion of bonds payable	1,275	1,215
Deposits and agency funds	2,248	1,735
Accrued payroll and other liabilities	1,032	1,364
Total current liabilities	<u>\$ 13,890</u>	<u>\$ 7,164</u>
Other Liabilities		
Accruals for staff benefit programs	17,048	16,207
Annuity obligations	10,654	7,831
Federal student loan funds	5,890	5,860
Notes payable	976	1,537
Bonds payable, net	50,457	51,675
Total liabilities	<u>\$ 98,915</u>	<u>\$ 90,274</u>
Net Assets		
Unrestricted -		
Current operations	\$ (12,628)	\$ (11,055)
Designated for specific purposes	1,077	980
Unexpended plant and facility funds	5,613	8,121
Invested in plant facilities	38,875	34,031
Quasi-endowment funds	181,166	153,839
Total unrestricted	<u>\$ 214,103</u>	<u>\$ 185,916</u>
Temporarily Restricted -		
Donor designated for specific purposes	\$ 6,763	\$ 6,183
Annuity and life income funds	4,001	2,975
Unexpended plant and facility funds	12,451	7,641
Unamortized contributions for long lived assets	13,094	13,249
Quasi-endowment funds	115,864	86,525
Total temporarily restricted	<u>\$ 152,173</u>	<u>\$ 116,573</u>
Permanently Restricted -		
Student loan funds	\$ 1,181	\$ 1,007
Annuity and life income funds	2,215	1,900
Funds held in trust by others	15,261	12,734
Endowment funds	95,003	89,248
Total permanently restricted	<u>\$ 113,660</u>	<u>\$ 104,889</u>
Total net assets	<u>\$ 479,936</u>	<u>\$ 407,378</u>
TOTAL LIABILITIES and NET ASSETS	<u><u>\$ 578,851</u></u>	<u><u>\$ 497,652</u></u>

The Notes to Financial Statements are an integral part of these statements.

Oberlin College

Statements of Activities

For the year ended June 30, 1997 with summarized totals for 1996

(dollars in thousands)

	1997			Total	1996
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
Operating Revenues					
Tuition and fees	\$ 60,299	\$ 418		\$ 60,717	\$ 58,152
Auxiliary enterprises	16,988			16,988	16,281
Government grants and contributions		2,031		2,031	2,419
Private gifts and grants	10,494	3,245		13,739	6,256
Investment earnings and gain	9,044	8,325	\$ 329	17,698	15,388
Other sources	1,825	73		1,898	2,652
Net assets released from restrictions	12,310	(12,310)			
Total operating revenues	\$ 110,960	\$ 1,782	\$ 329	\$ 113,071	\$ 101,148
Operating Expenses					
Instruction	\$ 30,045			\$ 30,045	\$ 28,516
Research	417			417	530
Student aid	22,022			22,022	19,752
Academic support	4,361			4,361	4,389
Student services	7,625			7,625	7,527
Institutional support	10,046			10,046	9,777
Facilities:					
Operations	5,507			5,507	5,821
Depreciation	5,295			5,295	4,991
Interest expense	1,704			1,704	1,560
Auxiliary enterprises:					
Operations	12,630			12,630	12,463
Depreciation	2,046			2,046	1,749
Interest expense	1,367			1,367	1,536
Total operating expenses	\$ 103,065			\$ 103,065	\$ 98,611
Increase in net assets from operating activities	\$ 7,895	\$ 1,782	\$ 329	\$ 10,006	\$ 2,537
Non-operating Activities					
Investment earnings and gain	\$ 8,280	\$ 12,002	\$ 375	\$ 20,657	\$ 13,942
Unrealized gain	18,394	13,070	2,308	33,772	23,400
Matured life income agreements	13	(13)			
Capital and deferred gifts	993	2,518	3,823	7,334	4,987
Pledges and bequests	(22)	3,212	2,726	5,916	(636)
Change in annuity obligations	(661)	(932)	(1,230)	(2,823)	(858)
Payments to beneficiaries		(1,132)		(1,132)	(1,092)
Other	(1,022)	(357)	207	(1,172)	(572)
Redesignated funds	(6,063)	5,830	233		
Net assets released from restrictions	380	(380)			
Increase in net assets from non-operating activities	\$ 20,292	\$ 33,818	\$ 8,442	\$ 62,552	\$ 39,171
Net increase in net assets	28,187	35,600	8,771	72,558	41,708
Net assets at beginning of year	185,916	116,573	104,889	407,378	365,670
Net assets at end of year	\$ 214,103	\$ 152,173	\$ 113,660	\$ 479,936	\$ 407,378

Oberlin College
Statements of Cash Flows
For the year ended June 30, 1997 and 1996
(dollars in thousands)

	<u>1997</u>	<u>1996</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 72,558	\$ 41,708
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,390	6,820
Changes in assets and liabilities that provide (use) cash:		
Accounts receivable	48	349
Short-term investments	923	(2,641)
Inventories and prepaid expenses	110	386
Pledges receivable	(5,916)	636
Accounts payable and accrued expenses	6,153	(448)
Deposits and deferred revenues	513	554
Accruals for staff benefits	841	1,091
Net adjustment of annuity obligations	2,823	858
Contributions restricted for long-term investments	(7,438)	(5,090)
Earnings restricted for long-term investment	(2,793)	(2,011)
Net realized and unrealized gains on long-term investments	(63,754)	(35,332)
Net cash provided by operating activities	<u>\$ 11,458</u>	<u>\$ 6,880</u>
Cash Flows From Investing Activities		
Purchases of plant and equipment, net	\$ (10,661)	\$ (11,009)
Proceeds from student loans collected	862	878
Student loans issued	(1,278)	(1,457)
Purchases of investments	(246,741)	(233,441)
Proceeds from sales and maturities of investments	239,443	229,150
Other investing activities	76	173
Net cash used for investing activities	<u>\$ (18,299)</u>	<u>\$ (15,706)</u>
Cash Flows From Financing Activities		
Proceeds from contributions for:		
Investment in endowment	\$ 2,188	\$ 2,190
Investment in long-lived assets	1,253	951
Investment in life income agreements	3,997	1,949
Earnings restricted for long-term investment	2,793	2,011
Payments on long-term debt	(1,215)	(1,165)
Payments on notes payable	(561)	(550)
Other financing activities	-	450
Net cash provided by financing activities	<u>\$ 8,455</u>	<u>\$ 5,836</u>
Net increase (decrease) in cash and cash equivalents	\$ 1,614	\$ (2,990)
Cash and cash equivalents, beginning of year	<u>1,087</u>	<u>4,077</u>
Cash and cash equivalents, end of year	<u>\$ 2,701</u>	<u>\$ 1,087</u>

The Notes to Financial Statements are an integral part of these statements.

Oberlin College
Notes to Financial Statements
June 30, 1997 and 1996
(dollars in thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Oberlin College is an independent, coeducational institution consisting of two major divisions. The College of Arts and Sciences offers a balanced curriculum in the humanities, social sciences, and natural sciences. The Conservatory of Music offers pre-professional training in music performance, composition, education, technology, theory, and history.

Basis of Presentation and Accounting

Effective fiscal year 1996, the College adopted the provisions of three new Statements of the Financial Accounting Standards Board - Statements of Financial Accounting Standards ("SFAS") Nos. 116, 117, and 124 retroactive to July 1, 1994. SFAS No. 116 requires that unconditional promises to give (contributions) be recorded as receivables and revenues, and requires the organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. SFAS No. 124 requires that all debt and certain equity securities with readily determinable fair values be reported in the statement of financial position at fair value with any realized or unrealized gains and losses reported in the statement of activities.

The financial statements are presented on the accrual basis of accounting, focusing on the institution as a whole. In accordance with the existence or absence of donor-imposed restrictions, fund balances and transactions are grouped into three classes of net assets - unrestricted, temporarily restricted, and permanently restricted.

Fund Group	Net Asset Group
Unrestricted current funds	Unrestricted
Restricted current funds	Unrestricted, temporarily restricted
Annuity and life income funds	Unrestricted, temporarily restricted and permanently restricted
Long-term investments	Unrestricted, temporarily restricted and permanently restricted
Plant funds	Unrestricted and temporarily restricted
Loan funds	Permanently restricted

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the College and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on

which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair market value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectable contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity.

The gain in market value of funds held in trust by others is reported as an increase in permanently restricted net assets. Income and realized net gains on long-term investments are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- as increases in unrestricted net assets in all other cases.

Contributions with Restrictions Met in the Same Year

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset group.

Release of Restrictions on Net Assets for Acquisition of Land, Building and Equipment

Contributions of exhaustible long-lived assets, or of cash or other assets to be used to acquire them, without donor stipulations concerning the use of such long-lived assets, are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released over the estimated useful lives of the long-lived assets using the institution's depreciation policies.

Collections and Works of Art

The College has elected not to capitalize contributed collections under the provisions of SFAS No. 116. However, the College has capitalized collections that were purchased prior to SFAS 116 adoption and are included in the statements of financial position as a part of land, buildings and equipment. These assets amounted to approximately \$7,308 and \$7,289 at June 30, 1997 and 1996, respectively. These contributions are not being depreciated by the College. Purchases of collection items on a going-forward basis are charged to operations and amounted to \$76 on June 30, 1997. Purchases of collection items are charged to operations in the year of acquisition. Recognizing works of art as an asset of the institution would result in a material increase in property, plant and equipment and a corresponding increase in net assets in the statements of financial position.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation.

Investments

Investments in marketable securities are stated at current market value based on the last trade price or at the reported net asset value for investment funds and limited partnerships. Investments in real estate through limited partnerships are stated at appraised market values while other real estate investments are stated at cost on the date of acquisition or fair market value at date of receipt in the case of gifts. The net realized and unrealized gain (or loss) in market value of investments are reflected in the statement of activities.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Funds Held in Trust

Funds held in trust by others represent resources neither in the possession nor under the control of the institution, but held and administered by outside trustees, with the College deriving income or a residual interest

from the assets of such funds. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the College is notified of its existence.

Depreciation

Depreciation on the property, plant and equipment owned by the College has been computed using the midyear convention under the following depreciation guidelines:

Buildings and additions	40 years
Building improvements and renovations	20 years
Library books and materials	15 years
Furniture and equipment	10 years

Using these guidelines, depreciation expense for fiscal years 1997 and 1996 was:

	<u>1997</u>	<u>1996</u>
Educational and general properties	\$4,304	\$4,085
Library books and materials	991	906
Auxiliary properties	<u>2,046</u>	<u>1,749</u>
	<u>\$7,341</u>	<u>\$6,740</u>

Unrestricted Bequests

The College follows the policy of designating all unrestricted bequests as additions to unrestricted quasi-endowment funds.

Cash Flow Information

For financial statement purposes, the College considers all investment (not held for long-term investment) with original maturities of three months or less as cash equivalents. Cash payments for interest, net of amounts capitalized, amounted to \$2,882 in 1997 and \$2,776 in 1996.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income, revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

The College is exempt from Federal income taxes under Section 501(c)3 of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

2. ASSETS FOR LONG-TERM INVESTMENT

	June 30, 1997		June 30, 1996	
	Book Value	Market Value	Book Value	Market Value
ENDOWMENT AND SIMILAR FUNDS				
General Investment Pool				
Fixed Income	\$ 41,865	\$ 41,741	\$ 63,226	\$ 62,894
Cash/Cash Equivalents	30,514	30,514	3,379	3,379
Equities	184,918	244,556	162,872	195,737
Venture Capital	54,325	63,167	46,882	52,984
Real Estate	8,437	7,659	8,748	7,969
Oil & Gas Investments	2,710	4,405	3,425	4,961
Total General Investment Pool	<u>\$ 322,769</u>	<u>\$ 392,042</u>	<u>\$ 288,532</u>	<u>\$ 327,924</u>
Non Pooled Investments				
Fixed Income	\$ 230	\$ 235	\$ 219	\$ 219
Cash/Cash Equivalents	(4)	(4)	(1)	(1)
Equities	64	202	64	149
Total Non-Pooled Invested Funds	<u>\$ 290</u>	<u>\$ 433</u>	<u>\$ 282</u>	<u>\$ 367</u>
TOTAL ENDOWMENT FUNDS	<u>\$ 323,059</u>	<u>\$ 392,475</u>	<u>\$ 288,814</u>	<u>\$ 328,291</u>
ANNUITY AND LIFE INCOME FUNDS				
Pooled Income Fund Trusts				
Fixed Income	\$ 1,077	\$ 1,060	\$ 1,088	\$ 1,068
Cash/Cash Equivalents	28	28	13	13
Equities	567	968	345	550
Total Pooled Income Fund Trusts	<u>\$ 1,672</u>	<u>\$ 2,056</u>	<u>\$ 1,446</u>	<u>\$ 1,631</u>
Gift Annuity Pool				
Fixed Income	\$ 6,844	\$ 6,671	\$ 5,989	\$ 5,629
Mortgages	200	15	200	15
Cash/Cash Equivalents	(229)	(229)	19	19
Total Gift Annuity Pool	<u>\$ 6,815</u>	<u>\$ 6,457</u>	<u>\$ 6,208</u>	<u>\$ 5,663</u>
Annuity Trusts And Unitrusts				
Fixed Income	\$ 5,467	\$ 5,532	\$ 4,537	\$ 4,500
Equities	2,734	3,832	1,229	1,822
Real Estate	71	69	70	69
Total Annuity Trusts and Unitrusts	<u>\$ 8,272</u>	<u>\$ 9,433</u>	<u>\$ 5,836</u>	<u>\$ 6,391</u>
TOTAL ANNUITY AND LIFE INCOME FUNDS	<u>\$ 16,759</u>	<u>\$ 17,946</u>	<u>\$ 13,490</u>	<u>\$ 13,685</u>
RESTRICTED FOR PLANT FACILITIES				
Fixed Income	\$ 9,760	\$ 10,085	\$ 9,568	\$ 9,464
Cash/Cash Equivalents	5,310	5,310	5,954	5,954
Mortgages	649	649	698	698
Real Estate	2,291	2,291	2,139	2,139
TOTAL RESTRICTED FOR PLANT FACILITIES	<u>\$ 18,010</u>	<u>\$ 18,335</u>	<u>\$ 18,359</u>	<u>\$ 18,255</u>
FUNDS HELD IN TRUST BY OTHERS	<u>\$ 9,004</u>	<u>\$ 15,261</u>	<u>\$ 8,785</u>	<u>\$ 12,734</u>
TOTAL ASSETS FOR LONG-TERM INVESTMENT	<u>\$ 366,832</u>	<u>\$ 444,017</u>	<u>\$ 329,448</u>	<u>\$ 372,965</u>

3. BONDS PAYABLE

Bonds payable at June 30, 1997 and 1996 consisted of the following:

	<u>1997</u>	<u>1996</u>
Ohio Higher Educational Facility Commission		
Revenue Bonds dated June 1, 1993, maturing annually on October 1 through 2007 in amounts ranging from \$825 to \$1,860, with interest ranging from 4.15% to 5.25% and \$21,070 maturing 2015 with an interest rate of 5.375%.	\$ 35,130	\$ 35,920
Variable Rate Demand Revenue Bonds dated December 9, 1985, maturing annually on October 1 through 2014 in amounts ranging from \$100 to \$300, with a final maturity of \$11,600 due October 1, 2015.	15,400	15,500
Seeley G. Mudd Center Bonds dated October 1, 1971, maturing annually on October 1 through 2001, in amounts ranging from \$350 to \$450, with interest ranging from 4% to 5.75%.	<u>1,985</u>	<u>2,310</u>
Sub-Total	\$ 52,515	\$ 53,730
Less: bond discount	<u>783</u>	<u>840</u>
Total Bonds Payable, Net	<u>\$ 51,732</u>	<u>\$ 52,890</u>

In June 1993, the Ohio Higher Educational Facility Commission issued Higher Educational Facility Revenue Bonds on behalf of the College in the original principal amount of \$38,045, a portion of which was used to refinance the \$26,745 outstanding principal balance of the August 1985 Collateralized Revenue Bonds and the May 1989 Revenue Bonds. The remaining proceeds were used to establish a Bond Reserve Fund to guarantee payment of periodic debt service charges, and to renovate Carnegie, Peters and King-Rice academic buildings, allowing relocation of offices and creation of space for new classrooms.

The education facilities financed by the Refunded Bonds included completion of construction of Stevenson Hall, part of the construction costs for a neuroscience addition to the Kettering Hall of Science and renovation of a number of academic and dormitory buildings.

The Ohio Higher Educational Facility Commission leases the facilities financed with proceeds of the June 1993 Bonds and the Refunded Bonds under a Base Lease with the College. The Commission in turn leases the facilities back to the College for an amount equivalent to debt service requirements and related expenses of the Bond Trustee and the Commission.

In the case of bonds issued prior to June 1993, the Ohio Higher Educational Facility Commission holds title to the properties constructed or renovated with related bond proceeds. The Commission leases these facilities to the College for a charge equal to the amount required for annual interest and principal retirement. Following the retirement of all such bonds, the College will repurchase the facilities from the Commission for a token amount.

The Variable Rate Demand Revenue Bonds were issued for the purpose of refinancing existing endowment loans, to renovate certain academic and administrative buildings, and to begin construction of the North Campus Dining Facility (Stevenson Hall). The interest rate on these bonds is established weekly at the rate traded by J.P. Morgan Securities, Inc. (the Remarketing Agent). This rate, limited to a maximum of 15% per annum, was 4% on June 30, 1997, and 3.35% on June 30, 1996. Bondholders may require Morgan Guaranty Trust Company of New York (Tender Agent) to repurchase their bonds at fair value on any weekly remarketing date. Additionally, the Commission, at the direction of the College, has the option to call the bonds on any interest payment date, which is the first business day of each month. The bonds are backed by a Standby Bond Purchase Agreement dated June 1, 1994 between Morgan Guaranty Trust Company of New York (Liquidity Provider) and the College. The initial period of the agreement is five years; the Liquidity Provider is paid a fee of .30% per annum on the commitment amount. The Liquidity Facility requires the Liquidity Provider to provide funds for the payment of principal and interest and for redemption of the bonds if the Remarketing Agent is unable to remarket the bonds. Bonds redeemed using the liquidity facility shall be transferred to the Bank. At June 30, 1997, the Bank did not hold any bonds under this arrangement.

On January 7, 1994, the College entered into an interest rate swap agreement with Morgan Guaranty Trust Company of New York effective July 1, 1995 to limit the College's exposure to the variable interest rates on the December 1985 Bonds. The net effect of the swap retains the original amortization schedule of the outstanding principal amount of \$15,600 but at a fixed 5.40% rate until October 1, 2015. The College is exposed to credit risk in the event of nonperformance by Morgan Guaranty Trust Company of New York (Counterparty) to the interest rate swap agreement. However, the College does not anticipate nonperformance by the Counterparty.

The College has received an interest grant from the United States Office of Education which has the effect of reducing interest expense over the life of the Seeley G. Mudd Center Bonds from an average rate of 5.5% to 3.0%. These bonds are secured by the College's pledge of certain securities in the *General Investment Pool* having a market value of \$9,151 at June 30, 1997.

Future principal payments on the College's outstanding bonds are as follows:

1997-98	1,275
1998-99	1,335
1999-00	1,405
2000-01	1,480
2001-02	1,555
Thereafter	45,465

Additionally, the College has \$681 of various notes payable at June 30, 1997, related to properties purchased through the Gift Real Estate Program. These notes bear interest at approximately 9.25% to 10% per annum and mature over periods ranging from July 1997 to October 2001.

The estimated fair market value of all outstanding long-term obligations at June 30, 1997 is \$51,507.

4. PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Certain promises to give are recorded after discounting to the present value of the future cash flows:

Unconditional promises to give are expected to be realized in the following periods:

	1997	1996
In one year or less	\$ 8,405	\$ 4,015
Between one year and five years	2,435	701
Less discount	(358)	(68)
Allowance for uncollectable pledges	(111)	(193)
	<u>\$ 10,371</u>	<u>\$ 4,455</u>

5. POSTRETIREMENT BENEFITS

The College sponsors an unfunded defined benefit postretirement health care plan that covers substantially all regular status employees. During fiscal year 1996 the plan's eligibility requirement was amended from the attainment of age 62 and no years of service to requiring 20 years of service after attaining age 42 to receive the maximum college contribution. All eligible employees age 42 or older were credited with 10 years of service as of June 30, 1996. The amendment also included a cap on medical benefits limiting the College subsidy of the health care plan to two times the 1995/96 contribution level. The cap is effective for all retirees retiring after June 30, 1996. These changes reduced the Accumulated Postretirement Benefit Obligation from \$14,378 to \$7,714. Accounting rules require the difference of \$6,509 to be amortized over 14.3 years, the average remaining service period for current employees. The plan pays stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after a stated deductible has been met. Employees now become eligible to participate in the plan if they retire from the College after reaching age 52, with 10 years of service. The plan is contributory, with retiree contributions adjusted annually. The accounting for the plan anticipates future cost-sharing changes to the written plan that are consistent with the College's announced policy that annual minimum retiree contributions will be set at an amount equal to 33.3 percent of the College's estimated cost before considering the contribution.

The following table reconciles the plan's funded status to the accrued postretirement health care cost liability as reflected on the statements of financial position as of June 30, 1997 and 1996:

Accumulated Postretirement Benefit Obligation	1997	1996
Retirees	\$ 5,116	\$ 5,109
Other fully eligible participants	2,583	2,197
Other active participants	260	408
	<u>7,959</u>	<u>7,714</u>
Unrecognized excess prior service cost	6,054	6,509
Unrecognized actuarial gain	516	155
Accrued postretirement health care cost liability	<u>\$ 14,529</u>	<u>\$ 14,378</u>

Net postretirement health care cost for 1997 included the following components:

Service cost - benefits attributed to service during the period	\$ 384
Interest cost on accumulated postretirement benefit obligation	560
Net amortization and deferral	<u>(455)</u>
Net postretirement health care cost	<u>\$ 489</u>

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care claims was assumed for 1997; the rate was assumed to decrease gradually to 5 percent by 2005 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of June 30, 1997 by \$477 and the aggregate of the service and interest cost components of net postretirement health care cost for the year then ended by \$43. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7.5 percent.

6. CONTINGENCIES

The College is involved in litigation and is subject to certain claims which 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.