Audited Consolidated Financial Statements and Other Financial Information

Kenyon College

For the years ended June 30, 2004 and 2003 with Report of Independent Auditors

Kenyon College

Audited Consolidated Financial Statements
and Other Financial Information

For the years ended June 30, 2004 and 2003

Contents

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Report of Independent Auditors

Board of Trustees
Kenyon College

We have audited the accompanying consolidated statements of financial position of Kenyon College (the College) as of June 30, 2004 and 2003, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the 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 Kenyon College as of June 30, 2004 and 2003, and the related changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

October 8, 2004

Kenyon College

Consolidated Statements of Financial Position

	June 30	
	2004	**2003**
Assets		
Cash and cash equivalents	**$ 44,516,147**	$ 57,040,782
Equity investments	**183,931,644**	154,516,667
Fixed income investments	**55,537,263**	57,514,339
Accounts and interest receivable	**965,799**	2,181,705
Inventories	**1,134,714**	1,162,205
Present value of pledges receivable	**22,210,162**	21,857,723
Loans receivable	**3,428,078**	3,305,857
Interests in charitable trusts	**5,950,062**	5,354,685
Land	**1,574,721**	1,576,920
Equipment and furniture, net of accumulated depreciation of $15,845,188 and $14,618,160 at June 30, 2004 and 2003, respectively	**6,841,447**	6,416,422
Library books and periodicals, net of accumulated depreciation of $5,941,983 and $5,456,086 at June 30, 2004 and 2003, respectively	**6,205,434**	5,848,264
Buildings, net of accumulated depreciation of $37,055731 and $34,380,003 at June 30, 2004 and 2003, respectively	**76,708,051**	76,762,931
Construction work-in-progress	**34,663,141**	10,471,466
Other assets	**1,381,381**	1,150,586
Total assets	**$ 445,048,044**	$ 405,160,552

See accompanying notes.

	June 30	
	2004	**2003**
Liabilities and net assets		
Liabilities:		
Accounts payable, accrued expenses and agency funds	**$ 8,900,048**	$ 5,650,046
Deposits and advances	**1,659,239**	1,647,824
Funds held for others	**-**	8,268
Liability for post-retirement benefits	**7,286,295**	6,284,447
Annuities, life income, pooled life income and unitrust payable	**2,561,051**	1,849,311
Government loan funds	**1,830,892**	1,842,974
Capital lease obligations	**141,845,000**	141,885,000
Total liabilities	**164,082,525**	159,167,870
Net assets:		
Unrestricted	**146,647,532**	121,409,226
Temporarily restricted	**53,305,026**	45,617,401
Permanently restricted	**81,012,961**	78,966,055
Total net assets	**280,965,519**	245,992,682
Total liabilities and net assets	**$ 445,048,044**	$ 405,160,552

Kenyon College

Consolidated Statement of Activities

Year ended June 30, 2004

	Unrestricted Current Operations	Unrestricted Internally Designated	Subtotal Unrestricted
Revenues, gains and other support:			
Student tuition	$ 45,472,318		$ 45,472,318
Less: Unfunded student financial aid	(12,590,696)		(12,590,696)
Net student tuition	32,881,622		32,881,622
Miscellaneous fees	934,595	$ 516,389	1,450,984
Gifts, pledges and bequests	3,746,298	632,195	4,378,493
Investment income	648,252	2,732,856	3,381,108
Realized and unrealized gains on investments	-	25,442,293	25,442,293
Government grants	291,201	624,334	915,535
Miscellaneous	438,706	196,819	635,525
Auxiliary enterprise revenues	12,577,196	-	12,577,196
	51,517,870	30,144,886	81,662,756
Net assets released from restrictions	1,126,953	5,867,737	6,994,690
Total revenues, gains and other support	52,644,823	36,012,623	88,657,446
Expenses:			
Instruction	17,969,618	4,496,214	22,465,832
Academic support	3,529,294	1,367,089	4,896,383
Student service	7,751,201	2,650,722	10,401,923
Auxiliary enterprises	11,191,633	1,860,929	13,052,562
Management and general	5,846,544	2,076,154	7,922,698
Fund raising	1,334,485	62,797	1,397,282
Student financial aid	2,613,692	22,555	2,636,247
Research		287,071	287,071
Miscellaneous		80,198	80,198
Total expenses	50,236,467	12,903,729	63,140,196
Change in net assets before capital items and additions to reserves	2,408,356	23,108,894	25,517,250
Capital items and additions to reserves	(2,408,356)	2,408,356	-
Loss on early extinguishment of debt	-	(278,944)	(278,944)
Change in net assets	-	25,238,306	25,238,306
Net assets at beginning of year	-	121,409,226	121,409,226
Net assets at end of year	$ -	$ 146,647,532	$ 146,647,532

See accompanying notes.

Temporarily Restricted	Permanently Restricted	Grand Total
		$ 45,472,318
		(12,590,696)
		32,881,622
$ -	$ -	1,450,984
12,796,681	1,519,260	18,694,434
1,759,836	16,729	5,157,673
7,375	406,146	25,855,814
-	-	915,535
118,423	104,771	858,719
-	-	12,577,196
14,682,315	2,046,906	98,391,977
(6,994,690)	-	-
7,687,625	2,046,906	98,391,977
-	-	22,465,832
-	-	4,896,383
-	-	10,401,923
-	-	13,052,562
-	-	7,922,698
-	-	1,397,282
-	-	2,636,247
-	-	287,071
-	-	80,198
-	-	63,140,196
7,687,625	2,046,906	35,251,781
-	-	-
-	-	(278,944)
7,687,625	2,046,906	34,972,837
45,617,401	78,966,055	245,992,682
$ 53,305,026	$ 81,012,961	$ 280,965,519

Kenyon College

Consolidated Statement of Activities

Year ended June 30, 2003

	Unrestricted Current Operations	Unrestricted Internally Designated	Subtotal Unrestricted
Revenues, gains and other support:			
Student tuition	$ 41,845,702		$ 41,845,702
Less: Unfunded student financial aid	(11,999,951)		(11,999,951)
Net student tuition	29,845,751		29,845,751
Miscellaneous fees	913,237	$ 665,357	1,578,594
Gifts, pledges and bequests	3,603,169	114,781	3,717,950
Investment income	575,407	2,361,276	2,936,683
Realized and unrealized gains			-
on investments	3,887	4,067,116	4,071,003
Government grants	299,155	453,768	752,923
Miscellaneous	762,390	384,724	1,147,114
Auxiliary enterprise revenues	11,600,248		11,600,248
	47,603,244	8,047,022	55,650,266
Net assets released from restrictions	864,918	8,044,676	8,909,594
Total revenues, gains and other support	48,468,162	16,091,698	64,559,860
Expenses:			
Instruction	17,456,554	5,528,630	22,985,184
Academic support	3,185,460	1,408,587	4,594,047
Student service	7,950,742	1,916,108	9,866,850
Auxiliary enterprises	10,353,339	2,650,529	13,003,868
Management and general	5,640,390	834,564	6,474,954
Fund raising	1,476,239	115,049	1,591,288
Student financial aid	2,195,233	18,802	2,214,035
Research		357,031	357,031
Miscellaneous		45,253	45,253
Total expenses	48,257,957	12,874,553	61,132,510
Change in net assets before capital items and additions to reserves	210,205	3,217,145	3,427,350
Capital items and additions to reserves	(210,205)	210,205	-
Change in net assets	-	3,427,350	3,427,350
Net assets at beginning of year	-	117,981,876	117,981,876
Net assets at end of year	$ -	$ 121,409,226	$ 121,409,226

See accompanying notes.

Temporarily Restricted	Permanently Restricted	Grand Total
		$ 41,845,702
		(11,999,951)
		29,845,751
		1,578,594
$ 3,913,930	$ 1,816,810	9,448,690
1,344,332	55,255	4,336,270
(10,333)	(306,464)	3,754,206
		752,923
163,036	(113,049)	1,197,101
		11,600,248
5,410,965	1,452,552	62,513,783
(9,169,860)	260,266	-
(3,758,895)	1,712,818	62,513,783
-	-	22,985,184
-	-	4,594,047
-	-	9,866,850
-	-	13,003,868
-	-	6,474,954
-	-	1,591,288
-	-	2,214,035
-	-	357,031
-	-	45,253
-	-	61,132,510
(3,758,895)	1,712,818	1,381,273
-	-	-
(3,758,895)	1,712,818	1,381,273
49,376,296	77,253,237	244,611,409
$ 45,617,401	$ 78,966,055	$ 245,992,682

Kenyon College

Consolidated Statements of Cash Flows

	Year ended June 30 2004	2003
Operating activities		
Change in net assets	$ 34,972,837	$ 1,381,273
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization expense	4,645,929	4,638,037
Loss on disposal of land, equipment and other fixed assets	64,643	630,593
Realized and unrealized gains	(25,855,814)	(3,754,206)
Contributions for permanently restricted purposes	(2,800,943)	(2,567,441)
Changes in operating assets and liabilities:		
Accounts and interest receivable	1,215,906	(281,955)
Loans receivable	(122,221)	(73,335)
Present value of pledges receivable	(352,439)	9,202,796
Interests in charitable trusts	(595,377)	375,357
Inventories	27,491	(41,777)
Other assets	(230,795)	(959,727)
Accounts payable, accrued expenses and agency funds	3,250,002	2,493,114
Deposits and advances	11,415	(106,170)
Liability for postretirement benefits	1,001,848	1,459,347
Annuities, life income, pooled life income and unitrusts payable	711,740	359,524
Funds held for others	(8,268)	(4,088)
Government loan funds	(12,082)	2,135
Net cash provided from operating activities	15,923,872	12,753,477
Investing activities		
Proceeds from sale of land	8,003	899,975
Purchases of land, buildings, equipment and furniture	(28,786,495)	(13,290,839)
Purchases of library books and periodicals	(843,067)	(754,842)
Purchase of securities	(103,916,465)	(250,104,594)
Sale of securities	107,181,310	225,577,329
Increased investment in limited partnerships	(4,852,736)	(3,304,664)
Net cash used in investing activities	(31,209,450)	(40,977,635)
Financing activities		
Contributions for permanently restricted purposes	2,800,943	2,567,441
Payments on capital leases	(6,385,000)	(515,000)
Issuance of bonds	6,345,000	75,000,000
Net cash provided by financing activities	2,760,943	77,052,441
Net (decrease) increase in cash and cash equivalents	(12,524,635)	48,828,283
Cash and cash equivalents at the beginning of the year	57,040,782	8,212,499
Cash and cash equivalents at the end of the year	$ 44,516,147	$ 57,040,782
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 3,032,209	$ 1,206,477

See accompanying notes.

Kenyon College

Notes to Consolidated Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

Organization

Kenyon College (the College), a private educational institution, derives its income from student tuition and fees, investments, gifts and grants, operation of residence and dining halls and related activities.

Use of Estimates

Preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Basis for Consolidation

The accounts of the Kenyon Inn Management Company, a wholly-owned subsidiary of the College, and the Philander Chase Corporation have been consolidated with the accounts of the College in the accompanying consolidated financial statements. The accounts of the Kenyon Review, the College's literary periodical, (a legally separate entity) have been combined in the accompanying consolidated financial statements of Kenyon College.

Liquidity

Assets and liabilities are listed in their estimated order of liquidity. For those accounts for which such liquidity is unclear, additional disclosures have been made in the accompanying notes to the College's consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair values of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

The carrying amount approximates fair value due to the short maturity of those instruments.

Equity Investments

Common and Preferred Stocks

The fair values of these investments are estimated based on quoted market prices for these or similar investments.

Limited Partnerships—Private Equity and Hedge Funds

The fair value of these investments is based on the College's portion of partners' capital.

Fixed Income Investments

The fair values of these investments are estimated based on quoted market prices for these or similar investments.

Loans Receivable

Federal Perkins Loans Receivable

The interest rates charged on Perkins loans receivable are fixed by the U.S. Department of Education and do not necessarily fluctuate with market conditions. Accordingly, the carrying amount reported for loans receivable approximates fair value.

1. Summary of Significant Accounting Policies (continued)

Fair Values of Financial Instruments (continued)

Loans Receivable (continued)

Kenyon College Loans Receivable

The interest rates charged on Kenyon College loans are fixed by the College and do not fluctuate with market conditions. Accordingly, the carrying amount reported approximates fair value.

Pledges Receivable

Pledges receivable are recorded at the present value of the discounted future cash flows, based on current market interest rates. The carrying value of pledges receivable therefore approximates their fair value.

Interests in Charitable Trusts

Contributions receivable from remainder trusts are recorded at the present value of the projected net future cash flows to be received, based on current market interest rates. Their carrying value therefore approximates their fair value. The College's share of interests in perpetual trusts is recorded at fair market value.

Annuities, Pooled Life Income, Life Income, and Unitrust Payable

The carrying value of these accounts is actuarially determined based on the present value of the discounted estimated future cash flows using current market interest rates and therefore approximates fair value.

Long-Term Debt

The fair value of the College's long-term debt, based on the College's current incremental borrowing rates for similar types of borrowing arrangements, approximates its carrying amount.

1. Summary of Significant Accounting Policies (continued)

Net Assets

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

Expiration of Donor-Imposed Restrictions

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of unrestricted net assets. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of temporarily restricted net assets. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Cash Equivalents

The College considers investments with a maturity of one year or less when purchased to be cash equivalents for the statement of financial position and for purposes of preparing the statement of cash flows.

Investments

Investments are carried at fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Investments received from donors as gifts are recorded at fair value at the date of gift. Investment return includes interest, dividends and both realized and unrealized gains and losses.

1. Summary of Significant Accounting Policies (continued)

Investments (continued)

In accordance with SFAS No. 117, "Financial Statements of Not-for Profit Organizations," the College has recorded net appreciation (both realized and unrealized) on endowment funds as unrestricted net assets unless the use of such income has been temporarily or permanently restricted by the donor or by law. In cases where such donor-imposed restrictions exist, net appreciation is recorded in the same manner as the corresponding income. Accordingly, temporarily or permanently restricted net assets are impacted, depending upon the nature of the restrictions imposed.

The College's endowment funds consist of assets which are invested to provide income to support education and related activities. Depending upon whether their creation resulted from donor-imposed restrictions or internal designations by the Board of Trustees, the corpus of each endowment is recorded as permanently restricted net assets or unrestricted net assets, respectively.

Inventories

Bookstore inventories are determined by physical count and are valued at a percentage of retail value, which approximates cost. Other inventories are valued at cost.

Funds Held in Trust by Others

Irrevocable charitable remainder trusts and charitable lead trusts that are held in trust by others have been included in the College's accompanying consolidated financial statements pursuant to SFAS No. 116, "Accounting for Contributions Received and Contributions Made" as an asset and as contribution revenue.

1. Summary of Significant Accounting Policies (continued)

Land, Buildings, Equipment and Depreciation

Acquisitions of land, buildings and equipment are stated at cost or at the fair market value of the properties when acquired by gift. Depreciation on physical plant and equipment is calculated on the straight-line method over the expected useful lives of the assets.

Federal Income Taxes

The Internal Revenue Service has determined that the College is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as a public charity described in Section 501(c)(3); accordingly, no provision for federal income taxes has been made in the financial statements.

2. Investments

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

	June 30	
	2004	**2003**
Equity investments:		
Common stocks	**$86,003,707**	$ 71,274,348
Preferred stocks	**65,760**	30,063
Hedge funds	**68,081,351**	55,523,832
Private equity	**29,780,826**	27,688,424
Fixed income investments	**55,537,263**	57,514,339
	$239,468,907	$212,031,006

The composition of investment return is as follows:

	Fiscal year ended June 30	
	2004	**2003**
Investment income (interest and dividends)	**$5,157,673**	$ 4,336,270
Realized and unrealized gains/(losses)	**25,855,814**	3,754,206
	$31,013,487	$ 8,090,476

2. Investments (continued)

Investment income is shown net of investment expenses of approximately $1,590,883 for the year ended June 30, 2004 and $1,111,000 for the year ended June 30, 2003.

The College was obligated at June 30, 2004 to invest additional funds in limited partnership investments in the amount of $24,286,678 at the direction of the general partners.

Pooled Endowment Assets

The College's endowment assets consist of three distinct investment funds: A, B and C. The assets of Fund A consist principally of securities and the assets of Fund B consist principally of real estate. Fund C consists of separately invested endowment funds. Assets of Fund A are pooled for income distribution on a market value basis. Each fund in the pool purchases or sells units on the basis of the value per unit at market value at the previous year end.

The following summarizes pertinent data relating to the pooled assets of Fund A that are included in the investments of the College (see Note 1):

	June 30	
	2004	**2003**
Cost	**$99,569,300**	$95,239,089
Market value	**107,775,504**	92,808,485
Number of units	**279,368**	268,367
Market value of unit	**$385.78**	$345.83

The 2004 average annual earnings per unit amounted to $19.25 for Fund A.

2. Investments (continued)

Pooled Endowment Assets (continued)

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

	Market	Cost	Excess of Market Value Over Cost
June 30, 2004:			
End of year	$143,822,663	$130,923,846	$12,898,817
Beginning of year	$125,459,728	$126,478,423	(1,018,695)
Change in unrealized gain for the year			13,917,512
Net realized gains for the year			6,639,030
Total			20,556,542
Interest and dividends, net of trustee fees			1,976,923
Total return			$22,533,465

3. Pledges Receivable

As of June 30, 2004 the College had received unconditional promises totaling $22,210,162 on which management has determined that no allowance for uncollectible promises is necessary.

	Temporarily Restricted	Permanently Restricted	Total
Within one year	$ 1,825,323	$ 362,770	$ 2,188,093
One to two years	993,014	303,835	1,296,849
Two to three years	14,082,359	714,904	14,797,263
Three to four years	347,804	257,128	604,932
Four to five years	342,489	99,882	442,371
More than five years (estate notes)	746,631	2,134,023	2,880,654
	$18,337,620	$3,872,542	$22,210,162

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 2.03% to 5.37%.

4. Available Line of Credit

Under an unused line of credit with a bank, the College may borrow up to $1,250,000 at an interest rate approximating the bank's prime interest rate.

5. Guaranteed Loans

The College offers a home mortgage loan guarantee program to certain members of its faculty and administration. Under this program, the College guarantees 100 percent of the outstanding mortgage loans until such time as the outstanding amount on each loan is reduced to 70% of the original appraised value or contract price of the property, at which time the guarantee is released. Under the program, the College has the right to purchase the mortgage loans from the lenders in the event of default by an employee. As of June 30, 2004, the College has guaranteed mortgage loans aggregating $4,063,212.

6. Retirement and Postretirement Benefit Plans

The College contributed $2,101,329 and $2,017,913 during the years ended June 30, 2004 and 2003, respectively, to Teachers Insurance and Annuity Association of America, an industry-wide retirement plan for certain members of the faculty and staff. The benefits provided result from defined contributions based on a percentage of each employee's compensation.

In addition to the College's defined contribution retirement plan, the College has two defined benefit postretirement plans. One plan provides certain health care benefits for retired employees. Employees become eligible at age 59½. The College pays for the major medical portion of the premium if the participant has either: 1) at least 10 years of service or 2) if less than 10 years of service, has participated in the medical plan during his/her entire employment with the College. If neither of the above conditions are met, the retiree pays the full amount of the premium. During 2003, this plan was amended to offer a second plan option with a reduced level of benefits at a lower premium.

6. Retirement and Postretirement Benefit Plans (continued)

The second plan provides life insurance benefits applicable only to two groups: 1) grandfathered members of the collective bargaining unit who were active as of February 4, 1974; and 2) members of the faculty who retire under early retirement agreements with coverage to continue for a maximum of 5 years. Because of the short period of coverage for faculty members covered by this plan, the value of this benefit for them is not material to the calculation of the postretirement valuation and, therefore, has not been included. The College reserves the right to modify or terminate these retiree payments at any time. The amount of funding activity is determined at the discretion of management. Currently, the College has not funded any portion of the liability.

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

	Fiscal year ended June 30	
	2004	**2003**
Net Periodic Postretirement Benefit Cost		
Service cost	**$ 422,364**	$ 380,622
Interest cost	**568,283**	897,396
Amortization of prior service cost	**(109,844)**	(108,457)
Amortization of unrecognized loss	**333,899**	722,285
Total net periodic postretirement benefit cost	**$1,214,702**	$ 1,891,846
Change in Benefit Obligation		
Benefit obligation at beginning of year	**$14,086,356**	$10,324,000
Service cost	**422,364**	380,622
Interest cost	**568,283**	897,396
Actuarial (gain) loss	**(4,886,118)**	4,267,211
Change in plan provisions	**(13,869)**	(1,350,374)
Benefits paid	**(212,854)**	(432,499)
Benefit obligation at end of year	**9,964,162**	14,086,356
Plan assets	**-**	–
Funded status	**(9,964,162)**	(14,086,356)
Unrecognized prior service cost	**(880,142)**	(976,117)
Unrecognized loss	**3,558,009**	8,776,026
Accrued benefit cost	**$ (7,286,295)**	$(6,284,447)
Reconciliation of Accrued Benefit Cost		
Accrued benefit cost at beginning of year	**$(6,284,447)**	$(4,825,100)
Estimated net benefit payments	**212,854**	432,499
Annual expense	**(1,214,702)**	(1,891,846)
Accrued benefit cost at end of year	**$(7,286,295)**	$(6,284,447)

6. Retirement and Postretirement Benefit Plans (continued)

	Fiscal year ended June 30	
	2004	**2003**
Actuarial Assumptions		
Weighted average discount rate	**6.25%**	6.00%
Medical trend:		
For next year	**8.00%**	8.50%
Thereafter	**7.50%**	8.00%
Ultimate trend rate	**4.50%**	4.50%
Year reached	**2012**	2012

The medical trend rate assumption has a significant effect on the benefit obligation and other amounts reported. If the medical trend rates were to increase by 1 percent for each year, the benefit obligation as of June 30, 2004 would increase by $1,717,663 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost (NPPBC) for fiscal year 2004 would increase by $221,873. If the medical trend rates were to decrease by 1 percent for each year, the benefit obligation as of June 30, 2004 would decrease by $1,374,956 and the sum of the service and interest cost components of the NPPBC for fiscal year 2004 would decrease by $172,136.

The following represents benefits projected to be paid in the next ten years:

2004	$ 276,739
2005	292,940
2006	321,883
2007	365,291
2008	412,068
2009-2014	2,886,056

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"), which introduces a Medicare prescription drug benefit, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit, was enacted. On May 19, 2004, the FASB issued Financial Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP 106-2"), to address certain accounting and disclosure issues raised by the Act.

6. Retirement and Postretirement Benefit Plans (continued)

FSP 106-2 addresses accounting for the federal subsidy for the sponsors of single employer defined benefit postretirement healthcare plans and disclosure requirements for plans for which the employer has not yet been able to determine actuarial equivalency. Except for certain nonpublic entities, FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004 (the year ending June 30, 2005 for the College). The College has not yet concluded whether the prescription drug benefits provided under its postretirement plan are actuarially equivalent to the Medicare benefit as necessary to qualify for the subsidy. The reported net periodic benefit costs of the postretirement plan in the accompanying Financial Statements and Notes to the Financial Statements do not reflect the effects of the Act. Adoption of FSP 106-2 could require revisions to previously reported information. While the College's plan may be eligible for benefits under the Act based on the prescription drug benefits provided in the postretirement plan, management does not believe such benefits will have a material impact on the College's financial statements.

7. Capital Lease Obligations

As of June 30, 2004 the College had entered into six lease agreements with the Ohio Higher Educational Facility Commission (the Commission) to finance various building and improvement projects. These leases serve as security for the Commission's Higher Educational Facility Revenue Bonds. The bonds are collateralized by a security interest in the buildings and improvements comprising the various projects.

Rental payments under the leases equal the interest and principal payments on related bonds issued by the Commission. The leases give the College the option to purchase the assets at nominal amounts after all bonds are retired. Accordingly, the College has recorded the assets ($103,931,529 net of accumulated depreciation of $33,014,533 as of June 30, 2004) as buildings or construction work in progress 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. At June 30, 2004, certain assets having a market value of $192,679 were on deposit to guarantee interest and principal payment on the bonds.

Interest capitalized during the years ended June 30, 2004 and 2003 in connection with the College's construction projects was $2,381,550 and $1,588,985, respectively.

7. Capital Lease Obligations (continued)

Fixed Interest Rate Bonds

Following is a summary of the bonds described above which have fixed interest rates:

7.40% Bonds issued in 1970, callable after 1982 and maturing through 2007	$ 310,000
4.80% to 5.30% Bonds issued in 1993, callable after 2003 maturing through 2016 (1993 Revenue Bonds)	2,590,000
3.00% to 4.50% Bonds issued in 2003 and maturing through 2017 (2003 Bonds)	6,345,000
Total	$9,245,000

In December 2003, the College issued $6,345,000 of revenue bonds through the Commission (the 2003 Bonds), to provide for early retirement of a portion of the 1993 Revenue Bonds with a face amount of $5,925,000. The refunding of this portion of the 1993 Revenue Bonds resulted in a loss of $278,944, which has been reported separately on the Statement of Activities.

The amount of rent paid by the College on its fixed rate bonds for the year ended June 30, 2004 was $799,261 of which $460,000 represents principal and $339,261 represents interest. At June 30, 2004, future minimum payments by year and in the aggregate, net of amounts subsidized by a government agency, under the capital lease obligations consist of the following:

2005	$ 1,005,794
2006	1,009,109
2007	1,000,089
2008	911,464
2009	916,193
Remaining amount due	7,331,250
	12,173,899
Amount representing interest	2,928,899
Fixed rate bonds outstanding	$9,245,000

7. Capital Lease Obligations (continued)

Variable Interest Rate Bonds

The 1992 Bonds

In December 1992, through the Commission the College issued variable rate, multi-mode bonds with a par value of $8,100,000. Since the issue date, those bonds have traded in the weekly mode and the average interest rate on the placements through June 30, 2004 was 2.88 percent. The amount of rent paid by the College (which represents interest) was $84,214 for the fiscal year ended June 30, 2004. The principal payment is due at maturity on April 1, 2022 unless redeemed under the provisions of the bond. Future minimum lease payments, excluding redemptions and principal due at maturity, represent interest payments and will vary based on the mode selected and economic conditions. In addition, the College has obtained a line of credit with a bank to provide for liquidity in connection with remarketing the bonds. The line of credit expires December 14, 2004.

During any daily, weekly or commercial paper mode, the bonds in such mode may be redeemed prior to maturity at a redemption price of 100 percent of the principal amount thereof.

The 1998 Bonds

In August 1998, through the Commission the College issued variable rate, multi-mode bonds with a par value of $20,500,000. Since the issue date, those bonds have traded in the weekly mode and the average interest rate on the placements through June 30, 2004 was 2.49 percent. The amount of rent paid by the College (which represents interest) was $212,977 for the fiscal year ended June 30, 2004. The principal payment is due at maturity on August 1, 2033 unless redeemed under the provisions of the bond. Future minimum lease payments, excluding redemptions and principal due at maturity, represent interest payments and will vary based on the mode selected and economic conditions. In addition, the College has obtained a line of credit with a bank provide for liquidity in connection with the remarketing of the bonds. The line of credit expires August 31, 2005.

During any daily or weekly rate period, the bonds in such period may be redeemed prior to maturity at a redemption price of 100 percent of the principal amount thereof.

7. Capital Lease Obligations (continued)

Variable Interest Rate Bonds (continued)

The 1999 Bonds

In November 1999, through the Commission the College issued variable rate, multi-mode bonds with a par value of $29,000,000. Since the issue date, those bonds have traded in the weekly mode and the average interest rate on the placements through June 30, 2004 was 2.27 percent. The amount of rent paid (which represents interest) was $301,496 for the fiscal year ended June 30, 2004. The principal payment is due at maturity on November 1, 2035 unless redeemed under the provisions of the bond. Future minimum lease payments, excluding redemptions and principal due at maturity, represent interest payments and will vary based on the mode selected and economic conditions. In addition, the College has obtained a line of credit with a bank to provide for liquidity in connection with the remarketing of the bonds. The line of credit expires November 18, 2006.

During any daily or weekly rate period, the bonds in such period may be redeemed prior to maturity at a redemption price of 100 percent of the principal amount thereof.

The 2002 Bonds

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

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

7. Capital Lease Obligations (continued)

Variable Interest Rate Bonds (continued)

The 2002 Bonds (continued)

After the end of each adjustable rate period, the bonds may operate at any time in one of three modes: daily, weekly, or adjustable. The blended interest rate on the placements through June 30, 2004 was 4.476 percent. The amount of rent expense (which represents interest) was $ 3,432,250 for the fiscal year ended June 30, 2004. The principal payment is due at maturity on July 1, 2037 unless redeemed under the provisions of the bond. Future minimum lease payments, which represent interest, are $3,432,250 per year through the fiscal year ending June 30, 2007. Thereafter, future minimum lease payments, excluding redemptions and principal due at maturity, will vary based on the mode selected and economic conditions.

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

As of June 30, 2004, cash included $30,692,573 of unspent bond proceeds which are restricted for use in the College's construction projects.

8. Net Assets

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

	June 30	
	2004	**2003**
Unrestricted net assets:		
Board designated net assets:		
Funds functioning as endowment	**$75,093,456**	$ 59,433,492
Capital reserve	**334,977**	922,536
Major physical plant repair and replacement reserve	**31,195**	1,126,955
Total board designated net assets	**75,459,628**	61,482,983
Other designations of net assets:		
Equity in plant assets (at cost)	**24,896,071**	23,895,382
Management designated net assets	**45,451,239**	35,774,897
Unrestricted annuities and pooled life funds, and charitable remainder trusts	**840,594**	255,964
Total other designations of net assets	**71,187,904**	59,926,243
Total unrestricted net assets	**$146,647,532**	$121,409,226
Temporarily restricted net assets:		
Pledges and trusts receivable	**$20,269,749**	$18,291,467
Life and pooled life income funds	**1,968,356**	1,770,323
Unexpended gifts and grants	**30,188,479**	25,000,491
Endowment income designated for restricted purposes	**878,442**	555,120
Total temporarily restricted net assets	**$53,305,026**	$45,617,401
Permanently restricted net assets:		
Endowment funds	**$68,729,211**	$66,026,236
Pledges and trusts receivable	**7,904,510**	9,424,781
Annuity and life income funds	**2,436,846**	1,640,020
Student loan funds	**1,942,394**	1,875,018
Total permanently restricted net assets	**$81,012,961**	$78,966,055

9. Commitments

As of June 30, 2004, the College has outstanding commitments of approximately $35.3 million remaining for the construction of new facilities.