Audited Consolidated Financial Statements and Other Financial Information

Kenyon College
For the Years Ended June 30, 2005 and 2004
With Report of Independent Auditors

Kenyon College

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and Other Financial Information

For the Years Ended June 30, 2005 and 2004

Contents

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Report of Independent Auditors

The Board of Trustees
Kenyon College

We have audited the accompanying consolidated statements of financial position of Kenyon College (the College) as of June 30, 2005 and 2004, 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. We were not engaged to perform an audit of the College's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2005 and 2004, and the activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

September 29, 2005

Kenyon College

Consolidated Statements of Financial Position

	June 30 2005	June 30 2004
Assets		
Cash and cash equivalents	$ **35,567,733**	$ 44,516,147
Equity investments	**193,450,926**	183,931,644
Fixed income investments	**60,037,272**	55,537,263
Accounts and interest receivable	**1,110,528**	965,799
Inventories	**1,125,344**	1,134,714
Present value of pledges receivable	**13,543,881**	22,210,162
Loans receivable	**3,755,879**	3,428,078
Interests in charitable trusts	**5,011,641**	5,950,062
Land	**1,574,721**	1,574,721
Equipment and furniture, net of accumulated depreciation of $16,810,937 and $15,845,188 at June 30, 2005 and 2004, respectively	**7,001,794**	6,841,447
Library books and periodicals, net of accumulated depreciation of $6,460,673 and $5,941,983 at June 30, 2005 and 2004, respectively	**6,506,569**	6,205,434
Buildings, net of accumulated depreciation of $39,767,324 and $37,055,731 at June 30, 2005 and 2004, respectively	**75,394,978**	76,708,051
Construction work-in-progress	**63,902,965**	34,663,141
Other assets	**2,593,355**	1,381,381
Total assets	$ **470,577,586**	$ 445,048,044

See accompanying notes.

	June 30	
	2005	**2004**
Liabilities and net assets		
Liabilities:		
Accounts payable, accrued expenses and agency funds	**$ 5,504,631**	$ 8,900,048
Deposits and advances	**2,470,673**	1,659,239
Funds held for others	**5,169**	–
Liability for post-retirement benefits	**7,639,746**	7,286,295
Annuities, life income, pooled life income and unitrust payable	**3,350,602**	2,561,051
Government loan funds	**1,822,136**	1,830,892
Capital lease obligations	**141,230,000**	141,845,000
Total liabilities	**162,022,957**	164,082,525
Net assets:		
Unrestricted	**178,468,723**	146,647,532
Temporarily restricted	**44,293,485**	53,305,026
Permanently restricted	**85,792,421**	81,012,961
Total net assets	**308,554,629**	280,965,519
Total liabilities and net assets	**$ 470,577,586**	$ 445,048,044

Kenyon College

Consolidated Statement of Activities

Year Ended June 30, 2005

	Unrestricted		
	Current Operations	Internally Designated	Subtotal Unrestricted
Revenues, gains and other support:			
Student tuition	$ 48,752,263		$ 48,752,263
Less: Unfunded student financial aid	(13,295,736)		(13,295,736)
Net student tuition	35,456,527		35,456,527
Miscellaneous fees	1,033,651	$ 794,532	1,828,183
Gifts, pledges and bequests	4,130,401	96,940	4,227,341
Investment income	1,132,828	1,827,805	2,960,633
Realized and unrealized gains on investments	14,618	21,263,500	21,278,118
Government grants	314,066	382,359	696,425
Miscellaneous	676,935	–	676,935
Auxiliary enterprise revenues	13,105,259	310,194	13,415,453
	55,864,285	24,675,330	80,539,615
Net assets released from restrictions	994,652	14,121,790	15,116,442
Total revenues, gains and other support	56,858,937	38,797,120	95,656,057
Expenses:			
Instruction	19,017,135	5,326,436	24,343,571
Academic support	3,412,136	1,132,371	4,544,507
Student service	8,184,594	394,346	8,578,940
Auxiliary enterprises	12,139,196	1,766,419	13,905,615
Management and general	6,203,372	1,404,189	7,607,561
Fund raising	1,635,246	137,663	1,772,909
Student financial aid	2,641,450	34,548	2,675,998
Research	–	316,566	316,566
Miscellaneous	–	89,199	89,199
Total expenses	53,233,129	10,601,737	63,834,866
Change in net assets before capital items and additions to reserves	3,625,808	28,195,383	31,821,191
Capital items and additions to reserves	(3,625,808)	3,625,808	–
Change in net assets	–	31,821,191	31,821,191
Net assets at beginning of year	–	146,647,532	146,647,532
Net assets at end of year	$ –	$ 178,468,723	$ 178,468,723

See accompanying notes.

Temporarily Restricted	Permanently Restricted	Grand Total
		$ 48,752,263
		(13,295,736)
		35,456,527
$ –	$ –	1,828,183
3,914,494	4,045,602	12,187,437
1,979,106	141,896	5,081,635
117,660	443,775	21,839,553
–	–	696,425
116,695	125,133	918,763
–	–	13,415,453
6,127,955	4,756,406	91,423,976
(15,139,496)	23,054	–
(9,011,541)	4,779,460	91,423,976
–	–	24,343,571
–	–	4,544,507
–	–	8,578,940
–	–	13,905,615
–	–	7,607,561
–	–	1,772,909
–	–	2,675,998
–	–	316,566
–	–	89,199
–	–	63,834,866
(9,011,541)	4,779,460	27,589,110
–	–	–
(9,011,541)	4,779,460	27,589,110
53,305,026	81,012,961	280,965,519
$ 44,293,485	$ 85,792,421	$ 308,554,629

Kenyon College

Consolidated Statement of Activities

Year Ended June 30, 2004

	Unrestricted			
	Current Operations	Internally Designated	Subtotal Unrestricted	Temporarily Restricted
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	12,796,681
Investment income	648,252	1,677,150	2,325,402	1,759,836
Realized and unrealized gains on investments	–	25,442,293	25,442,293	7,375
Government grants	291,201	624,334	915,535	–
Miscellaneous	438,706	196,819	635,525	118,423
Auxiliary enterprise revenues	12,577,196	–	12,577,196	–
	51,517,870	29,089,180	80,607,050	14,682,315
Net assets released from restrictions	1,126,953	5,867,737	6,994,690	(6,994,690)
Total revenues, gains and other support	52,644,823	34,956,917	87,601,740	7,687,625
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	1,595,016	9,346,217	–
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	11,848,023	62,084,490	–
Change in net assets before capital items and additions to reserves	2,408,356	23,108,894	25,517,250	7,687,625
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	7,687,625
Net assets at beginning of year	–	121,409,226	121,409,226	45,617,401
Net assets at end of year	$ –	$ 146,647,532	$ 146,647,532	$ 53,305,026

See accompanying notes.

Permanently Restricted	Grand Total
	$ 45,472,318
	(12,590,696)
	32,881,622
$ –	1,450,984
1,519,260	18,694,434
16,729	4,101,967
406,146	25,855,814
–	915,535
104,771	858,719
–	12,577,196
2,046,906	97,336,271
–	–
2,046,906	97,336,271
–	22,465,832
–	4,896,383
–	9,346,217
–	13,052,562
–	7,922,698
–	1,397,282
–	2,636,247
–	287,071
–	80,198
–	62,084,490
2,046,906	35,251,781
–	–
–	(278,944)
2,046,906	34,972,837
78,966,055	245,992,682
$ 81,012,961	$ 280,965,519

Kenyon College

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2005	2004
Operating activities		
Change in net assets	$ 27,589,110	$ 34,972,837
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization expense	4,677,626	4,645,929
Loss on disposal of land, equipment and other fixed assets	45,446	64,643
Realized and unrealized gains	(21,839,553)	(25,855,814)
Contributions for permanently restricted purposes	(3,942,350)	(2,800,943)
Changes in operating assets and liabilities:		
Accounts and interest receivable	(144,729)	1,215,906
Loans receivable	(327,801)	(122,221)
Present value of pledges receivable	8,666,281	(352,439)
Interests in charitable trusts	938,421	(595,377)
Inventories	9,370	27,491
Other assets	(1,211,974)	(230,795)
Accounts payable, accrued expenses and agency funds	(3,395,417)	3,250,002
Deposits and advances	811,434	11,415
Liability for postretirement benefits	353,451	1,001,848
Annuities, life income, pooled life income and unitrusts payable	789,551	711,740
Funds held for others	5,169	(8,268)
Government loan funds	(8,756)	(12,082)
Net cash provided from operating activities	13,015,279	15,923,872
Investing activities		
Proceeds from sale of land	-	8,003
Purchases of land, buildings, equipment and furniture	(32,291,481)	(28,786,495)
Purchases of library books and periodicals	(819,824)	(843,067)
Purchase of securities	(40,769,676)	(103,916,465)
Sale of securities	50,504,567	107,181,310
Increased investment in limited partnerships	(1,914,629)	(4,852,736)
Net cash used in investing activities	(25,291,043)	(31,209,450)
Financing activities		
Contributions for permanently restricted purposes	3,942,350	2,800,943
Payments on capital leases	(615,000)	(6,385,000)
Issuance of bonds	-	6,345,000
Net cash provided by financing activities	3,327,350	2,760,943
Net decrease in cash and cash equivalents	(8,948,414)	(12,524,635)
Cash and cash equivalents at the beginning of the year	44,516,147	57,040,782
Cash and cash equivalents at the end of the year	$ 35,567,733	$ 44,516,147
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 4,890,285	$ 3,032,209

See accompanying notes.

Kenyon College

Notes to Financial Statements

June 30, 2005

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 in the consolidated statements of financial position and for purposes of preparing the consolidated statements 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.

Reclassifications

Certain 2004 amounts have been reclassified to conform to the 2005 presentation.

2. Investments

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

	June 30	
	2005	**2004**
Equity investments:		
Common stocks	**$ 84,880,499**	$ 86,003,707
Preferred stocks	**-**	65,760
Hedge funds	**73,235,620**	68,081,351
Private equity	**35,334,807**	29,780,826
Fixed income investments	**60,037,272**	55,537,263
	$253,488,198	$239,468,907

2. Investments (continued)

The composition of investment return is as follows:

	Fiscal Years Ended June 30 2005	2004
Investment income (interest and dividends)	$ 5,081,635	$ 5,157,673
Realized and unrealized gains	21,839,553	25,855,814
	$26,921,188	$31,013,487

Investment income is shown net of investment expenses of approximately $1,857,041 for the year ended June 30, 2005 and $1,590,883 for the year ended June 30, 2004.

The College was obligated at June 30, 2005 to invest additional funds in limited partnership investments in the amount of $29,796,831 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.

2. Investments (continued)

Pooled Endowment Assets (continued)

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 2005	June 30 2004
Cost	**$102,828,730**	$ 99,569,300
Market value	**117,628,242**	107,775,504
Number of units	**285,464**	279,368
Market value of unit	**$412.06**	$385.78

The 2005 average annual earnings per unit amounted to $19.36 for Fund A.

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, 2005:			
End of year	$158,053,202	$135,696,684	$22,356,518
Beginning of year	143,822,663	130,923,846	12,898,817
Change in unrealized gain for the year			9,457,701
Net realized gains for the year			6,658,145
Total			16,115,846
Interest and dividends, net of trustee fees			2,198,554
Total return			$18,314,400

3. Pledges Receivable

As of June 30, 2005 the College had received unconditional promises totaling $13,543,881 on which management has determined that no allowance for uncollectible promises is necessary.

	Temporarily Restricted	Permanently Restricted	Total
Within one year	$1,195,140	$ 610,582	$1,805,722
One to two years	5,426,661	726,499	6,153,160
Two to three years	359,046	301,441	660,487
Three to four years	652,056	144,436	796,492
Four to five years	1,033,892	1,066,905	2,100,797
More than five years (estate notes)	903,480	1,123,743	2,027,223
	$9,570,275	$3,973,606	$13,543,881

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 3.51% to 4.28%.

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, 2005, the College has guaranteed mortgage loans aggregating $4,283,428.

6. Retirement and Postretirement Benefit Plans

The College contributed $2,225,348 and $2,101,329 during the years ended June 30, 2005 and 2004, 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.

The second defined benefit postretirement 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.

6. Retirement and Postretirement Benefit Plans (continued)

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

	Fiscal Year Ended June 30 2005	2004
Net Periodic Postretirement Benefit Cost		
Service cost	**$ 317,425**	$ 422,364
Interest cost	**463,257**	568,283
Amortization of prior service cost	**(109,844)**	(109,844)
Amortization of unrecognized loss	**31,841**	333,899
Total net periodic postretirement benefit cost	**$ 702,679**	$ 1,214,702
Change in Benefit Obligation		
Benefit obligation at beginning of year	**$ 9,964,162**	$14,086,356
Service cost	**317,425**	422,364
Interest cost	**463,257**	568,283
Actuarial (gain) loss	**(244,146)**	(4,886,118)
Change in plan provisions	**229,878**	(13,869)
Benefits paid	**(349,228)**	(212,854)
Benefit obligation at end of year	**$10,381,348**	$ 9,964,162
Plan assets	**-**	-
Funded status	**(10,381,348)**	(9,964,162)
Unrecognized prior service cost	**(540,420)**	(880,142)
Unrecognized loss	**3,282,022**	3,558,009
Accrued benefit cost	**$(7,639,746)**	$ (7,286,295)

6. Retirement and Postretirement Benefit Plans (continued)

	Fiscal Year Ended June 30	
	2005	**2004**
Reconciliation of Accrued Benefit Cost		
Accrued benefit cost at beginning of year	**$(7,286,295)**	$(6,284,447)
Estimated net benefit payments	**349,228**	212,854
Annual expense	**(702,679)**	(1,214,702)
Accrued benefit cost at end of year	**$(7,639,746)**	$(7,286,295)
Actuarial Assumptions		
Weighted average discount rate:		
Expense for the Year	**6.25%**	6.00%
Accumulated Plan Benefit Obligation (at year-end)	**5.25%**	6.25%
Medical trend:		
For next year	**9.00%**	8.00%
Thereafter	**8.50%**	7.50%
Ultimate trend rate	**4.50%**	4.50%
Year reached	**2014**	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, 2005 would increase by $1,260,308 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost (NPPBC) for fiscal year 2005 would increase by $162,837. If the medical trend rates were to decrease by 1 percent for each year, the benefit obligation as of June 30, 2005 would decrease by $1,012,336 and the sum of the service and interest cost components of the NPPBC for fiscal year 2005 would decrease by $127,210.

6. Retirement and Postretirement Benefit Plans (continued)

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

Estimated Future Cash Flows	Gross Employer Claims	Expected Medicare D Subsidy	Net Employer Claims
2005	$ 356,083	$ -	$ 356,083
2006	386,445	112,682	273,763
2007	427,029	131,715	295,314
2008	486,939	149,552	337,387
2009	556,874	164,947	391,927
2010-2014	3,909,217	1,172,532	2,736,685

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.

The Plan first measured the impact of the Act on the Accumulated Postretirement Benefit Obligation (APBO) and statutory expense as of July 1, 2004. The impact of the Act on July 1, 2004 was a reduction in APBO of $3,693,408 and a reduction in expense of $652,068.

7. Capital Lease Obligations

As of June 30, 2005 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.

7. Capital Lease Obligations (continued)

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 ($131,717,182 net of accumulated depreciation of $35,457,286 as of June 30, 2005) 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, 2005, certain assets having a market value of $186,301 were on deposit to guarantee interest and principal payment on the bonds.

Interest capitalized during the years ended June 30, 2005 and 2004 in connection with the College's construction projects was $3,652,460 and $2,381,550, respectively.

Fixed Interest Rate Bonds

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

7.40% Bonds issued in 1970, callable after 1982 and maturing through 2007	$ 210,000
4.80% to 5.30% Bonds issued in 1993, callable after 2003 maturing through 2016 (1993 Revenue Bonds)	2,125,000
3.00% to 4.50% Bonds issued in 2003 and maturing through 2016 (2003 Bonds)	6,295,000
Total	$8,630,000

7. Capital Lease Obligations (continued)

Fixed Interest Rate Bonds (continued)

The amount of rent paid by the College on its fixed rate bonds for the year ended June 30, 2005 was $1,024,542 of which $587,940 represents principal and $436,602 represents interest. At June 30, 2005, future minimum payments by year and in the aggregate, net of amounts subsidized by a government agency, under these capital lease obligations consist of the following:

2006	$ 1,009,109
2007	1,000,089
2008	911,464
2009	916,194
2010	918,931
Remaining amount due	6,412,318
	11,168,105
Amount representing interest	2,538,105
Fixed rate obligations outstanding	$ 8,630,000

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, 2005 was 2.80 percent. The amount of rent paid by the College (which represents interest) was $153,846 for the fiscal year ended June 30, 2005. 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, 2006.

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.

7. Capital Lease Obligations (continued)

Variable Interest Rate Bonds (continued)

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, 2005 was 2.40 percent. The amount of rent paid by the College (which represents interest) was $389,364 for the fiscal year ended June 30, 2005. 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 to provide for liquidity in connection with the remarketing of the bonds. The line of credit expires August 31, 2008.

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 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, 2005 was 2.20 percent. The amount of rent paid (which represents interest) was $550,973 for the fiscal year ended June 30, 2005. 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.

7. Capital Lease Obligations (continued)

Variable Interest Rate Bonds (continued)

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%

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, 2005 was 4.476 percent. The amount of rent expense (which represents interest) was $3,432,250 for the fiscal year ended June 30, 2005. 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.

7. Capital Lease Obligations (continued)

Variable Interest Rate Bonds (continued)

The 2002 Bonds (continued)

As of June 30, 2005, cash and cash equivalents included $3,055,524 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 2005	June 30 2004
Unrestricted net assets:		
Board designated net assets:		
Funds functioning as endowment	$ 85,263,627	$75,093,456
Capital reserve	410,647	334,977
Major physical plant repair and replacement reserve	113,336	31,195
Total board designated net assets	85,787,610	75,459,628
Other designations of net assets:		
Equity in plant assets (at cost)	29,192,393	24,896,071
Management designated net assets	63,403,030	45,451,239
Unrestricted annuities and pooled life funds, and charitable remainder trusts	85,690	840,594
Total other designations of net assets	92,681,113	71,187,904
Total unrestricted net assets	$178,468,723	$146,647,532

	June 30 2005	June 30 2004
Temporarily restricted net assets:		
Pledges and trusts receivable	$10,566,557	$20,269,749
Life and pooled life income funds	2,071,161	1,968,356
Unexpended gifts and grants	30,826,520	30,188,479
Endowment income designated for restricted purposes	829,247	878,442
Total temporarily restricted net assets	$44,293,485	$53,305,026

8. Net Assets (continued)

	June 30	
	2005	**2004**
Permanently restricted net assets:		
Endowment funds	**$72,789,575**	$68,729,211
Pledges and trusts receivable	**8,007,762**	7,904,510
Annuity and life income funds	**2,974,651**	2,436,846
Student loan funds	**2,020,433**	1,942,394
Total permanently restricted net assets	**$85,792,421**	$81,012,961

9. Commitments

As of June 30, 2005, the College has outstanding commitments of approximately $12.9 million remaining for the construction of new facilities and the renovation of existing facilities.