KENYON COLLEGE

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2012 and 2011

KENYON COLLEGE

CONTENTS

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Maloney+Novotny LLC

The Board of Trustees
Kenyon College
Gambier, Ohio

Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of Kenyon College as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kenyon College as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Maloney + Novotny LLC

Cleveland, Ohio
October 25, 2012

Business Advisors and Certified Public Accountants
Cleveland | Canton | Elyria

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KENYON COLLEGE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 9,377,076	$ 21,044,013
Investments	360,859,777	358,101,962
Accounts and interest receivable	1,739,414	1,561,648
Inventories	601,908	582,555
Present value of pledges receivable	26,053,852	30,335,545
Loans receivable	5,470,502	5,529,776
Interests in charitable trusts	2,977,194	3,257,216
Land	2,019,697	2,019,689
Equipment and furniture, net of accumulated depreciation of $18,107,012 and $16,546,918 at June 30, 2012 and 2011, respectively	9,896,805	9,734,160
Library books and periodicals, net of accumulated depreciation of $10,279,239 and $9,597,502 at June 30, 2012 and 2011, respectively	10,094,505	9,728,024
Buildings and building improvements, net of accumulated depreciation of $72,724,592 and $66,534,120 at June 30, 2012 and 2011, respectively	194,606,946	168,294,079
Construction work-in-progress	19,946,610	31,498,202
Other assets	4,226,559	3,574,747
Total assets	$ 647,870,845	$ 645,261,616

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

KENYON COLLEGE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

	2012	2011
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable, accrued expenses and agency funds	$ 15,736,337	$ 12,901,032
Fair value of interest rate swaps	5,815,125	5,642,920
Deposits and advances	2,686,824	2,823,993
Liability for post-retirement benefits	5,610,007	4,763,978
Annuities, life income, pooled life income and unitrust payable	3,485,095	3,139,713
Government loan funds	1,923,000	1,898,559
Capital lease obligations, net	187,518,457	188,217,970
Total liabilities	222,774,845	219,388,165
NET ASSETS		
Unrestricted	247,390,479	249,693,270
Temporarily restricted	31,461,021	36,387,120
Permanently restricted	146,244,500	139,793,061
Total net assets	425,096,000	425,873,451
Total liabilities and net assets	$ 647,870,845	$ 645,261,616

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

KENYON COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2012
(With Comparative Totals for Year Ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
OPERATING REVENUES					
Tuition and mandatory fees	$ 67,999,864			$ 67,999,864	$ 64,613,617
Less: Financial aid	(23,839,911)			(23,839,911)	(22,993,422)
Net tuition and mandatory fees	44,159,953			44,159,953	41,620,195
Auxiliary enterprise revenues	21,678,563			21,678,563	20,530,679
Investment return designated for operations	7,999,721	$ 3,851,871		11,851,592	14,906,635
Private gifts and grants	4,950,948	1,378,434		6,329,382	8,828,150
Government grants	936,111			936,111	686,303
Miscellaneous fees	1,278,839			1,278,839	1,368,929
Other income	1,890,626	143,459		2,034,085	1,453,494
Net assets released from restrictions	7,731,638	(7,731,638)		-	-
Total operating revenues	90,626,399	(2,357,874)		88,268,525	89,394,385
OPERATING EXPENSES					
Instruction	34,861,435			34,861,435	31,059,004
Student services	21,987,280			21,987,280	19,941,491
Academic support	6,768,126			6,768,126	5,443,799
Research	627,033			627,033	376,434
Institutional support	11,266,628			11,266,628	9,332,275
Fund raising	2,469,781			2,469,781	2,410,502
Auxiliary enterprises	20,579,090			20,579,090	19,693,830
Total operating expenses	98,559,373			98,559,373	88,257,335
Change in net assets from operating activities	(7,932,974)	(2,357,874)		(10,290,848)	1,137,050
NON-OPERATING ACTIVITIES					
Contributions and pledges		4,034,038	$ 5,603,738	9,637,776	11,886,081
Investment return, less amounts designated for operations	(625,524)	142,572	378,765	(104,187)	29,934,091
(Loss) gain on interest rate swap	(172,205)			(172,205)	356,553
Net change in annuity and life income funds	6,130	23,667	191,667	221,464	247,374
Loss on disposal of property and equipment	(174,143)			(174,143)	(273,500)
Miscellaneous	(72,431)	60,550	116,573	104,692	(151,449)
Net assets released from restrictions	6,668,356	(6,829,052)	160,696	-	-
Change in net assets from non-operating activities	5,630,183	(2,568,225)	6,451,439	9,513,397	41,999,150
CHANGE IN NET ASSETS	(2,302,791)	(4,926,099)	6,451,439	(777,451)	43,136,200
NET ASSETS AT BEGINNING OF YEAR	249,693,270	36,387,120	139,793,061	425,873,451	382,737,251
NET ASSETS AT END OF YEAR	$ 247,390,479	$ 31,461,021	$ 146,244,500	$ 425,096,000	$ 425,873,451

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

KENYON COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
OPERATING REVENUES				
Tuition and mandatory fees	$ 64,613,617			$ 64,613,617
Less: Financial aid	(22,993,422)			(22,993,422)
Net tuition and mandatory fees	41,620,195			41,620,195
Auxiliary enterprise revenues	20,530,679			20,530,679
Investment return designated for operations	9,330,162	$ 5,576,473		14,906,635
Private gifts and grants	5,326,037	3,502,113		8,828,150
Government grants	686,303			686,303
Miscellaneous fees	1,368,929			1,368,929
Other income	1,353,021	100,473		1,453,494
Net assets released from restrictions	13,928,507	(13,928,507)		-
Total operating revenues	94,143,833	(4,749,448)		89,394,385
OPERATING EXPENSES				
Instruction	31,059,004			31,059,004
Student services	19,941,491			19,941,491
Academic support	5,443,799			5,443,799
Research	376,434			376,434
Institutional support	9,332,275			9,332,275
Fund raising	2,410,502			2,410,502
Auxiliary enterprises	19,693,830			19,693,830
Total operating expenses	88,257,335			88,257,335
Change in net assets from operating activities	5,886,498	(4,749,448)		1,137,050
NON-OPERATING ACTIVITIES				
Contributions and pledges	548,813	4,118,952	$ 7,218,316	11,886,081
Investment return, less amounts designated for operations	25,542,271	4,007,135	384,685	29,934,091
Gain on interest rate swap	356,553			356,553
Net change in annuity and life income funds	111,825	(31,938)	167,487	247,374
Loss on disposal of property and equipment	(273,500)			(273,500)
Miscellaneous	(46,273)		(105,176)	(151,449)
Net assets released from restrictions	11,131,638	(11,131,638)		-
Change in net assets from non-operating activities	37,371,327	(3,037,489)	7,665,312	41,999,150
CHANGE IN NET ASSETS	43,257,825	(7,786,937)	7,665,312	43,136,200
NET ASSETS AT BEGINNING OF YEAR	206,435,445	44,174,057	132,127,749	382,737,251
NET ASSETS AT END OF YEAR	$ 249,693,270	$ 36,387,120	$ 139,793,061	$ 425,873,451

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

KENYON COLLEGE

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (777,451)	$ 43,136,200
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	9,154,460	7,194,529
Amortization of bond premiums	5,487	5,487
Change in fair value of interest rate swap	172,205	(356,553)
Loss on disposal of property and equipment	174,143	273,500
Net realized and unrealized gains	(1,046,712)	(32,063,357)
Contributions for permanently restricted purposes	(7,718,466)	(7,625,118)
Changes in operating assets and liabilities:		
Accounts and interest receivable	(177,766)	1,245,411
Inventories	(19,353)	40,071
Present value of pledges receivable	4,281,693	5,905,878
Loans receivable	59,274	99,052
Interests in charitable trusts	280,022	(556,641)
Other assets	(651,812)	396,714
Accounts payable, accrued expenses and agency funds	2,835,305	4,215,736
Deposits and advances	(137,169)	(222,924)
Liability for postretirement benefits	846,029	182,781
Annuities, life income, pooled life income and unitrusts payable	345,382	(238,440)
Government loan funds	24,441	17,883
Net cash provided by operating activities	7,649,712	21,650,209
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings, equipment and furniture	(23,570,796)	(19,991,649)
Purchases of library books and periodicals	(1,048,216)	(1,133,846)
Purchase of securities	(27,548,826)	(54,609,633)
Sale of securities	39,806,034	77,685,459
Increased investment in limited partnerships	(13,968,311)	(30,402,757)
Net cash used in investing activities	(26,330,115)	(28,452,426)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for permanently restricted purposes	7,718,466	7,625,118
Payments on capital leases	(705,000)	(685,000)
Net cash provided by financing activities	7,013,466	6,940,118
CHANGE IN CASH AND CASH EQUIVALENTS	(11,666,937)	137,901
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	21,044,013	20,906,112
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,377,076	$ 21,044,013
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 5,903,300	$ 5,799,768

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

Note 1. Summary of Significant Accounting Policies

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

B. *Use of Estimates* – Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

C. *Basis for Consolidation* – The accounts of the Kenyon Inn Management Company, a wholly-owned subsidiary of the College, and the Philander Chase Corporation have been consolidated with the accounts of the College in the accompanying consolidated financial statements. The accounts of the Kenyon Review, the College's literary periodical (a legally separate entity), have been combined in the accompanying consolidated financial statements of Kenyon College. All significant intercompany accounts and transactions have been eliminated.

The Graham Gund Gallery (the Gallery) is a visual arts center at the College. During the year, the Gallery applied for incorporation with the State of Ohio and for 501(c)(3) status with the Internal Revenue Service. Approval has not been received from either agency. Policies and procedures for the Gallery are being formulated, and a plan will be implemented to account for the collection to be held by the Gallery and to determine which items will be placed in the collection. The College and the Gallery do not anticipate that the implementation of these policies and the identification of the collection will have a material impact on the consolidated financial statements.

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

E. *Fair Values of Financial Instruments* – GAAP provides a framework for measuring fair value and requires a three level hierarchy for disclosure to show the extent and the level of judgment used to estimate fair value measurements related to financial instruments:

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

Cash and Cash Equivalents

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

Equity Investments

Common Stocks

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

Alternative Investments

Hedge and Alternative Funds

Hedge and alternative funds are investments in securities where a readily verifiable fair value may not exist and/or is not available to management. Fair value of these investments is reported by management based on information provided by the investment managers. Values may be based on readily available public market data and values may also be based on estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The financial statements of the investees are audited annually by independent auditors as of December 31, the most recent being as of December 31, 2011. These assets are generally valued using Level 2 or Level 3 assumptions.

Private Equity, Real Estate and Commodities

Private equity, real estate funds and commodities are investments where a readily verifiable fair value may or may not exist. Fair value in these investments is reported by management based on readily available public market data, generally considered Level 1 valuations, or on information provided by the investment managers, based on the College's share of the partnership's capital balance. The fair value of limited partnerships and similar nonmarketable equity interests which invest in both publicly and privately owned securities is based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determined market values. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information. The financial statements of the investees are audited annually by independent auditors as of December 31, the most recent being as of December 31, 2011. These assets are generally valued using Level 3 assumptions.

Fixed Income Investments

Marketable Funds

Fixed income marketable funds are investments where readily verifiable fair value may or may not exist. Fair value in these investments is reported by management based on readily available public market data, generally considered Level 1 valuations, or on information provided by the investment managers, based on the College's share of the partnership's capital balance, generally considered Level 2 valuations.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Fixed Income Investments (Continued)

Alternative Funds

Alternative funds are investments in securities where a readily verifiable fair value may not exist and/or is not available to management. Fair value of these investments is reported by management based on information provided by the investment managers. Values may be based on readily available public market data and values may also be based on estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The financial statements of the investees are audited annually by independent auditors as of December 31, the most recent being as of December 31, 2011. These assets are generally valued using Level 2 or Level 3 assumptions.

Loans Receivable

Federal Perkins Loans Receivable

The interest rates charged on Perkins loans receivable are fixed by the U.S. Department of Education and do not necessarily fluctuate with market conditions. Because there is no market for Federal Loans, the carrying value approximates fair value.

Kenyon College Loans Receivable

The interest rates charged on Kenyon College loans are fixed by the College and are consistent with market rates. Accordingly, the carrying amount reported approximates fair value.

Pledges Receivable

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

Interests in Charitable Trusts

Contributions receivable from remainder trusts are recorded at the present value of the projected net future cash flows to be received, based on current market interest rates. Their carrying value, therefore, approximates their fair value. The College's share of interests in perpetual trusts is recorded at fair market value. Because the College does not have access to these assets on a short-term basis, these are considered Level 3 valuations.

Annuities, Pooled Life Income, Life Income and Unitrust Payable

The carrying value of these accounts is actuarially determined based on the present value of the discounted estimated future cash flows using market interest rates on the date of contribution and, therefore, approximates fair value. The annual payments on the annuities range from $3,753 to $47,448.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Long-Term Debt

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

Interest Rate Swap

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

The following tables set forth by level within the fair value hierarchy the College's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of June 30, 2012 and 2011. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The College's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. The tables do not include cash on hand or other assets and liabilities that are measured at historical cost or any basis other than fair value.

June 30, 2012	Level 1	Level 2	Level 3	Total
Assets				
Equity Investments				
Common Stocks	$ 47,133,025	$ 19,411,335		$ 66,544,360
Alternative Investments:				
Hedge and Alternative Funds		31,253,416	$ 52,483,475	83,736,891
Private Equity			68,726,034	68,726,034
Real Estate	1,181,887		29,407,839	30,589,726
Commodities	3,608,503		7,252,682	10,861,185
Total alternative investments	4,790,390	31,253,416	157,870,030	193,913,836
Total Equity Investments	$ 51,923,415	$ 50,664,751	$ 157,870,030	$ 260,458,196
Fixed Income Investments				
Marketable Funds	$ 57,883,037	$ 32,614,610		$ 90,497,647
Alternative Funds			$ 9,903,934	9,903,934
Total Fixed Income Investments	$ 57,883,037	$ 32,614,610	$ 9,903,934	$ 100,401,581
Interests in Charitable Trusts			$ 2,977,194	$ 2,977,194
Liabilities				
Interest rate swap		$ 5,815,125		$ 5,815,125

Note 1. Summary of Significant Accounting Policies (Continued)

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

June 30, 2011	Level 1	Level 2	Level 3	Total
Assets				
Equity Investments				
Common Stocks	$ 40,670,068	$ 18,918,318		$ 59,588,386
Alternative Investments:				
Hedge and Alternative Funds		22,754,546	$ 54,767,017	77,521,563
Private Equity			66,711,089	66,711,089
Real Estate	1,101,502		26,391,033	27,492,535
Commodities	3,638,458		5,960,833	9,599,291
Total alternative investments	4,739,960	22,754,546	153,829,972	181,324,478
Total Equity Investments	$ 45,410,028	$ 41,672,864	$ 153,829,972	$ 240,912,864
Fixed Income Investments				
Marketable Funds	$ 62,604,621	$ 44,654,944		$ 107,259,565
Alternative Funds			$ 9,929,533	9,929,533
Total Fixed Income Investments	$ 62,604,621	$ 44,654,944	$ 9,929,533	$ 117,189,098
Interests in Charitable Trusts			$ 3,257,216	$ 3,257,216
Liabilities				
Interest rate swap		$ 5,642,920		$ 5,642,920

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows for the years ended June 30, 2012 and 2011:

	June 30, 2012					
Financial Instrument	Beginning Balance	Reclassification Between Levels	Purchases	Distributions	Realized/ Unrealized Gains	Ending Balance
Equity Investments						
Alternative Investments:						
Hedge and Alternative Investments	$ 54,767,017		$ 1,000,000	$ (3,821,120)	$ 537,578	$ 52,483,475
Private Equity	66,711,089		7,543,715	(9,562,701)	4,033,931	68,726,034
Real Estate	26,391,033		3,331,897	(2,070,415)	1,755,324	29,407,839
Commodities	5,960,833		1,622,253	(462,563)	132,159	7,252,682
Total Equity Investments	153,829,972		13,497,865	(15,916,799)	6,458,992	157,870,030
Fixed Income Investments:						
Alternative Funds	9,929,533		1,765,416	(1,881,243)	90,228	9,903,934
Interest in Charitable Trusts	3,257,216			(167,187)	(112,835)	2,977,194
	$ 167,016,721	$ -	$ 15,263,281	$ (17,965,229)	$ 6,436,385	$ 170,751,158

Note 1. Summary of Significant Accounting Policies (Continued)

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

	June 30, 2011					
Financial Instrument	Beginning Balance	Reclassification Between Levels	Purchases	Distributions	Realized/ Unrealized Gains	Ending Balance
Equity Investments						
Alternative Investments:						
Hedge and Alternative Investments	$ 53,076,910	$ (2,360,415)		$ (79,852)	$ 4,130,374	$ 54,767,017
Private Equity	55,471,025		$ 8,793,732	(13,052,852)	15,499,184	66,711,089
Real Estate	15,311,146		6,773,507	(1,610,521)	5,916,901	26,391,033
Commodities	4,874,412		1,587,985	(1,278,025)	776,461	5,960,833
Total Equity Investments	128,733,493	(2,360,415)	17,155,224	(16,021,250)	26,322,920	153,829,972
Fixed Income Investments:						
Alternative Funds	11,613,202		1,388,736	(4,150,571)	1,078,166	9,929,533
Interest in Charitable Trusts	2,700,575			(86,921)	643,562	3,257,216
	$ 143,047,270	$ (2,360,415)	$ 18,543,960	$ (20,258,742)	$ 28,044,648	$ 167,016,721

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

G. *Interest Rate Swap* – Derivative instruments (interest rate swaps) are recorded by the College on the consolidated statements of financial position at fair value, as described in Note 1.E. The College's interest rate swap agreement is used to manage exposure to interest rate movement by effectively changing the variable rates on the College's bonds payable to a fixed rate. The critical terms of the interest rate swap agreements and the interest-bearing debt associated with the swap agreements are similar. The interest rate swaps qualify and have been designated and accounted for as fair value hedges. Changes in fair market value of the interest rate swap are recognized as a change in net assets on the consolidated statements of activities in the period of change, following GAAP guidance specific to non-for-profit organizations (see Note 8).

H. *Investments* – Investments are carried at fair value as described in Note 1.E. Investments received from donors as gifts are recorded at fair value at the date of gift. Investment return includes interest, dividends and both realized and unrealized gains and losses.

Note 1. Summary of Significant Accounting Policies (Continued)

H. *Investments (Continued)*

Alternative investments include interests in hedge funds, private equity, real estate and other alternative assets. The College held alternative investments valued at $203,817,770 and $191,254,011, representing 31% and 30% of the total assets as of June 30, 2012 and 2011, respectively. Because alternative investments may not be entirely readily marketable, part of their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been reported had a ready market for such investments existed. Such differences could be material. Also see *Fair Values of Financial Instruments* section.

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

J. *Loans Receivable* – Loans receivable are carried at unpaid principal balances, less an allowance for uncollectible loans of $40,000 at June 30, 2012 and 2011. Periodic evaluation of the adequacy of the allowance is based on past loan loss experience and current economic conditions. Interest income is recorded as monthly payments are received. Loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date. Interest on past due loans is not accrued and recognized only to the extent cash payments are received.

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

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

L. *Interests in charitable trusts* – Irrevocable charitable remainder trusts and charitable lead trusts that are held in trust by others have been included in the College's accompanying consolidated financial statements pursuant to *Accounting for Contributions Received and Contributions Made*, as an asset and as contribution revenue as of the date the College is notified of its interest in the irrevocable trust.

M. *Land, Buildings, Equipment and Depreciation* – Acquisitions of land, buildings and equipment are stated at cost or at the fair market value of the properties when acquired by gift. It is the policy of the College to capitalize additions and, for replacements, to capitalize the incremental increase in cost of plant and equipment items. Maintenance, repairs and minor renewals are charged to expense when incurred.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

Depreciation expense for the years ended June 30, 2012 and 2011 was $9,154,460 and $7,194,529, respectively.

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

O. *Federal Income Taxes* – The Internal Revenue Service has determined that the College is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as a public charity described in Section 501(c)(3); accordingly, no provision for federal income taxes has been made in the consolidated financial statements. There were no unrecognized tax benefits as of June 30, 2012.

As of June 30, 2012, the College's income tax returns from 2008 and thereafter remain subject to examination by the Internal Revenue Service, as well as various state and local taxing authorities.

P. *Conditional Asset Retirement Obligations* – *Accounting for Conditional Asset Retirement Obligations* clarified when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered the provisions of *Accounting for Conditional Asset Retirement Obligations*, specifically as it relates to its legal obligations to perform asset retirement activities on its existing properties. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the College may settle the obligations is unknown and cannot be estimated. As a result, management cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2012.

Q. *Reclassifications* – Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

R. *Contingencies* – The College is involved in litigation and is subject to certain claims that arise in the normal course of operations. In the opinion of management, the ultimate disposition of the litigation and claims will not have a material adverse effect on the College's operations or financial position.

S. *Subsequent Events* – The College has evaluated subsequent events through October 25, 2012, which is the date the consolidated financial statements were available to be issued.

Note 2. Investments

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

	June 30 2012	June 30 2011
Equity investments:		
Common stocks	$ 66,544,360	$ 59,588,386
Alternative investments:		
Hedge and alternative funds	83,736,891	77,521,563
Private equity	68,726,034	66,711,089
Real estate	30,589,726	27,492,535
Commodities	10,861,185	9,599,291
Total alternative investments	193,913,836	181,324,478
Total equity investments	260,458,196	240,912,864
Fixed income investments:		
Marketable funds	90,497,647	107,259,565
Alternative funds	9,903,934	9,929,533
Total fixed income investments	100,401,581	117,189,098
	$ 360,859,777	$ 358,101,962

The composition of investment return is as follows:

	Fiscal Years Ended June 30 2012	Fiscal Years Ended June 30 2011
Investment income (interest and dividends)	$ 10,700,693	$ 12,777,369
Realized and unrealized gains	1,046,712	32,063,357
	$ 11,747,405	$ 44,840,726

Investment income is shown net of investment expenses of $2,562,722 for the year ended June 30, 2012 and $2,415,717 for the year ended June 30, 2011.

The College was obligated at June 30, 2012 to invest additional funds in limited partnership investments in the amount of $48,859,014 at the direction of the general partners. These capital calls may be funded through distributions from current limited partnerships, liquidations of investments currently held by the College, new gifts and/or unrestricted net assets.

Note 3. Endowment Funds

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

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

For the year ended June 30, 2012, the College utilized a spending formula to calculate the distribution out of its investment portfolio. The formula is composed of two elements: 1) a market element adjusts annual endowment spending to the long-term sustainable target spending of 4.00% of the average actual market value of the endowment for the most recent three years. This element of the spending rate receives a 30% weighting in the spending rate calculation and 2) a spending element increases last year's spending rate by a factor for inflation (3.5%) plus budget growth (1.50%). This element of the spending rate receives a weight of 70%. The distributed earnings are considered appropriated for expenditure and recorded as net assets released from restrictions on the statement of activities as spent.

The College's endowment funds were as follows as of June 30, 2012 and 2011:

June 30, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year,	$ 57,637,175	$ 9,243,469	$ 114,981,207	$ 181,861,851
Investment return:				
Investment income	1,084,241	2,772,368		3,856,609
Net appreciation (realized and unrealized)	962,455	1,299,398	277	2,262,130
Total investment return	2,046,696	4,071,766	277	6,118,739
Cash contributions	209,793		8,201,456	8,411,249
Transfers	(2,859,277)	2,859,277		
Appropriation of endowment assets for expenditure	(2,011,347)	(6,604,219)		(8,615,566)
Endowment assets, end of year	$ 55,023,040	$ 9,570,293	$ 123,182,940	$ 187,776,273

Note 3. Endowment Funds (Continued)

June 30, 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year,	$ 47,623,992	$ 5,067,964	$ 107,705,907	$ 160,397,863
Investment return:				
Investment income	3,251,211	7,333,610		10,584,821
Net appreciation (realized and unrealized)	10,812,402	954,467	2,651	11,769,520
Total investment return	14,063,613	8,288,077	2,651	22,354,341
Cash contributions	343,702		7,272,649	7,616,351
Transfers	(1,384,450)	1,384,450		
Appropriation of endowment assets for expenditure	(3,009,682)	(5,497,022)		(8,506,704)
Endowment assets, end of year	$ 57,637,175	$ 9,243,469	$ 114,981,207	$ 181,861,851

Based on the College's spending formula, as of June 30, 2012 and 2011, an additional $3,820,049 and $3,307,618, respectively, has been appropriated for expenditure out of temporarily restricted funds.

The fair value of assets associated with certain individual donor-restricted endowment funds was below the original donated value by $4,612,226 and $4,119,255 at June 30, 2012 and 2011, respectively.

Note 4. Pledges Receivable

As of June 30, 2012, the College had received unconditional promises to give as follows:

	Temporarily Restricted	Permanently Restricted	Total
Within one year	$ 4,335,723	$ 3,552,441	$ 7,888,164
One to two years	2,255,680	1,880,473	4,136,153
Two to three years	2,653,400	716,901	3,370,301
Three to four years	1,706,466	459,500	2,165,966
Four to five years	896,000	130,000	1,026,000
More than five years (estate notes)	2,937,500	8,750,000	11,687,500
	14,784,769	15,489,315	30,274,084
Discount on long-term pledges	(1,115,708)	(2,898,796)	(4,014,504)
Allowances for uncollectible pledges	(185,799)	(19,929)	(205,728)
	$ 13,483,262	$ 12,570,590	$ 26,053,852

Note 4. Pledges Receivable (Continued)

The amounts are recorded at the present value of future cash flows discounted using rates for one to twenty-six year treasury securities ranging from 0.20% to 2.60%.

As of June 30, 2011, the College had received gross unconditional promises totaling $36,983,021 net of allowances for uncollectible pledges of $220,032 and discount on long-term pledges of $6,427,444.

Note 5. Available Line of Credit

Under an unused and unsecured line of credit with a bank, the College may borrow up to $15,000,000 at a rate of 4.0% as of June 30, 2012.

Note 6. Guaranteed Loans

The College offers a home mortgage loan guarantee program to certain members of its faculty and administration. Under this program, the College guarantees 100% of the outstanding mortgage loans until such time as the outstanding amount on each loan is reduced to 70% of the original appraised value or contract price of the property, at which time the guarantee is released. Under the program, the College has the right to purchase the mortgage loans from the lenders in the event of default by an employee. As of June 30, 2012, the College has guaranteed mortgage loans aggregating $2,721,289. All loans were current as of June 30, 2012. The College deems it unlikely that the full amount of the guarantee would be called by the banks.

Note 7. Retirement and Postretirement Benefit Plans

The College has three defined contribution retirement plans which cover substantially all employees. Eligible employees may contribute a percentage of their compensation. The College contributes 9.5% of the employee's compensation for all employees who contribute a minimum deferral of 3% or 5% depending on the plan. The College's contributions to the plans were $2,995,525 and $2,942,509 during the years ended June 30, 2012 and 2011, respectively.

In addition to the College's defined contribution retirement plans, the College has two additional postretirement benefit plans. One plan provides certain health care benefits for retired employees. The College makes defined contributions to the plan on behalf of eligible employees who are 35 years of age or older and have completed at least one year of service. The College's contributions are limited to 25 years or the employee's separation from employment, whichever occurs first. The College contributed $557,835 and $516,187 for the years ended June 30, 2012 and 2011, respectively.

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

Note 7. Retirement and Postretirement Benefit Plans (Continued)

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

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

Included in unrestricted net assets at June 30, 2012 and 2011 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of $3,226,872 and $2,599,304, respectively, and unrecognized net prior service credit of $3,455,448 and $4,249,623, respectively. The actuarial loss and prior service credit expected to be recognized during the year ended June 30, 2013 are $267,927 and $685,713, respectively.

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

	Fiscal Years Ended June 30	
	2012	2011
Net Periodic Postretirement Benefit Cost		
Service cost	$ 163,960	$ 150,110
Interest cost	228,339	224,095
Amortization of prior service cost	(794,175)	(794,171)
Amortization of unrecognized loss	191,967	194,856
Total net periodic postretirement benefit cost	$ (209,909)	$ (225,110)

	Fiscal Years Ended June 30	
	2012	2011
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 4,763,978	$ 4,581,197
Service cost	163,960	150,110
Interest cost	228,339	224,095
Actuarial loss	819,535	186,434
Benefits paid	(365,805)	(377,858)
Benefit obligation at end of year	$ 5,610,007	$ 4,763,978

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

Note 7. Retirement and Postretirement Benefit Plans (Continued)

Estimated future benefit payments as of June 30, 2012 are as follows:

2013	$ 415,386
2014	418,048
2015	441,992
2016	478,424
2017	497,531
2018-2022	2,364,545

	Fiscal Years Ended June 30	
	2012	2011
Actuarial Assumptions		
Weighted average discount rate:		
Expense for the year	5.00%	4.85%
Accumulated plan benefit obligation (at year-end)	3.97%	5.00%
Medical trend:		
For next year	9.00%	9.00%
Thereafter	8.50%	8.50%
Ultimate trend rate	5.00%	5.00%
Year reached	2020	2019

The medical trend rate assumption has a significant effect on the benefit obligation and other amounts reported. If the medical trend rates were to increase by 1% for each year, the benefit obligation as of June 30, 2012 would increase by $374,250 and the sum of the service and interest cost components of the Net Periodic Postretirement Benefit Cost (NPPBC) for fiscal year 2012 would increase by $39,465. If the medical trend rates were to decrease by 1% for each year, the benefit obligation as of June 30, 2012 would decrease by $333,156 and the sum of the service and interest cost components of the NPPBC for fiscal year 2012 would decrease by $34,705.

Note 8. Capital Lease Obligations

As of June 30, 2012, the College has in place four lease agreements with the Ohio Higher Educational Facility Commission (the Commission) to finance various building and improvement projects. These leases serve as security for the Commission's Higher Educational Facility Revenue Bonds. The bonds are collateralized by a security interest in the buildings and improvements comprising the various projects.

Rental payments under the leases equal the interest and principal payments on related bonds issued by the Commission. The leases give the College the option to purchase the assets at nominal amounts after all bonds are retired. Accordingly, the College has recorded the assets ($151,233,890, net of accumulated depreciation of $63,124,529 as of June 30, 2012) as buildings and the liabilities as capital lease obligations. Amortization of these assets is included in depreciation expense.

All revenues generated by the leased facilities are pledged as collateral for retirement of the bonds.

Note 8. Capital Lease Obligations (Continued)

Summary of Bonds Outstanding

	2012	2011
2002 Adjustable Medium Term Revenue Bonds:		
Currently in three tranches callable July 1, 2014 through July 1, 2016 with rates ranging from 4.00% to 5.05% and a final maturity of July 1, 2037 - outstanding principal	$ 40,500,000	$ 40,500,000
2003 Refunding Revenue Bonds:		
Maturing through December 1, 2016 with rates ranging from 4.00% to 4.50% - outstanding principal	4,025,000	4,730,000
2006 Revenue Bonds:		
Maturing through July 1, 2041 with a rate of 5.00%		
outstanding principal	42,495,000	42,495,000
unamortized premium	271,470	280,831
2010 Revenue Bonds:		
Maturing through July 1, 2044 with rates ranging from 4.75% to 5.25%		
outstanding principal	100,665,000	100,665,000
unamortized discount	(438,013)	(452,861)
Capital lease obligations, net	$ 187,518,457	$ 188,217,970

In December 2002, the College issued adjustable rate medium term bonds with a par value of $75,000,000. In 2006, $5,000,000 of this issue was refunded as part of the 2006 Bonds (see below) and in 2010, $29,500,000 of this issue was refunded as part of the 2010 Bonds (see below) leaving an outstanding par value of $40,500,000. The bond proceeds funded the construction of the Kenyon Athletic Center and the improvement, renovation and equipping of certain educational facilities. The bonds are currently issued in a fixed rate mode. After the end of each fixed rate period, the bonds may operate at any time in one of three modes: daily, weekly or adjustable. The blended interest rate of the placements through June 30, 2012 was 4.85%. The principal payment is due at maturity on July 1, 2037 unless redeemed under provision of the bond. The minimum lease payment, which represents interest, is $1,964,250 for the fiscal year ending June 30, 2013. Thereafter, future minimum lease payments, excluding redemptions and principal due at maturity, will vary based on the mode selected and economic conditions.

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

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

Note 8. Capital Lease Obligations (Continued)

Summary of Bonds Outstanding (Continued)

In February 2010, the College issued Ohio Educational Facility Commission Revenue Bonds, Kenyon College 2010 (the Bonds), in the amount of $100,665,000. These new bonds were used to refinance, in full, three variable rate bond issues. In addition, $29,500,000 of a total $70,000,000 of Ohio Educational Facility Commission Adjustable Medium Term Revenue Bonds, Kenyon College Project 2002, was refinanced.

The amount of rent expensed by the College on its bonds for the year ended June 30, 2012 was $10,088,141 of which $705,000 represents principal and $9,383,141 represents interest. The amount of rent expensed by the College on its bonds for the year ended June 30, 2011 was $10,092,453 of which $685,000 represents principal and $9,407,453 represents interest.

At June 30, 2012, future minimum payments by year and in the aggregate under these capital lease obligations consist of the following:

2013	$ 10,088,422
2014	10,090,478
2015	10,121,040
2016	10,148,266
2017	10,154,053
Remaining amount due	399,319,373
	449,921,632
Amount representing interest	(262,236,632)
Fixed rate obligations outstanding	$ 187,685,000

Interest Rate Swap Agreements

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

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

At June 30, 2012 and 2011, the fair value of the 2006 swap was a liability of $14,825,099 and $7,152,542, respectively, and the fair value of the 2010 swap was an asset of $9,009,974 and $1,509,622, respectively. For the fiscal years ended June 30, 2012 and 2011, the College's interest expense was increased by $486,515 and $487,109, respectively, as a result of the interest rate swaps.

Note 9. Net Assets

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

	2012	2011
Unrestricted net assets		
Board designated net assets:		
Funds functioning as endowment	$ 55,023,040	$ 57,637,175
Reserves for capital replacement and operating budget support	113,044,659	116,649,050
Total board designated net assets	168,067,699	174,286,225
Other designations of net assets:		
Equity in plant assets (at cost)	66,812,434	50,815,898
Management designated net assets	20,115,743	30,642,271
Unfunded postretirement benefits, compensated absences and early retirement agreements	(7,605,397)	(6,051,124)
Total other designations of net assets	79,322,780	75,407,045
Total unrestricted net assets	$ 247,390,479	$ 249,693,270

Temporarily restricted net assets were restricted as follows:

	2012	2011
Temporarily restricted net assets		
Unexpended endowment income and gifts and grants:		
Faculty and academic support	$ 6,271,330	$ 6,135,930
Student programs	898,551	2,047,977
Scholarships, prizes and awards	2,349,238	2,301,885
Plant improvements	1,191,972	2,590,718
Other programs	2,976,496	3,131,101
Gifts pending donor designation	1,156,667	1,222,901
Total unexpended endowment income and gifts and grants	14,844,254	17,430,512
Present value of pledges receivable	13,483,262	15,799,309
Interests in charitable trusts	842,299	916,266
Life and pooled life income funds	2,291,206	2,241,033
Total temporarily restricted net assets	$ 31,461,021	$ 36,387,120

Note 9. Net Assets (Continued)

Permanently restricted net assets were restricted as follows:

	2012	2011
Permanently restricted net assets		
Endowment funds:		
Faculty and academic support	$ 37,026,673	$ 32,017,357
Lectureship and concert funds	1,122,764	1,137,177
Library funds	2,989,915	2,982,377
Student programs	2,472,834	2,211,025
Scholarship and prize funds	60,075,247	57,484,672
Presidency funds	3,172,865	3,172,865
Kenyon Review funds	3,818,471	3,582,413
Loan funds	3,718,983	4,321,181
General support	5,174,385	5,153,374
Other funds	3,610,803	2,918,766
Total endowment funds	123,182,940	114,981,207
Present value of pledges receivable	12,570,590	14,536,236
Interests in charitable trusts	2,134,895	2,340,950
Annuity and life income funds	2,680,360	2,566,995
Student loan funds	5,675,715	5,367,673
Total permanently restricted net assets	$ 146,244,500	$ 139,793,061

Note 10. Commitments

As of June 30, 2012, the College has outstanding commitments of approximately $13.1 million remaining for the construction of new facilities. Through June 30, 2012, the College has incurred costs of approximately $19.6 million under these commitments which are included in construction work-in-progress on the statement of financial position. Also as of June 30, 2012, the College has an outstanding commitment of $3.8 million remaining on an energy services agreement.