SCRIPPS COLLEGE

FINANCIAL REPORT 2003–2004

CLAREMONT, CALIFORNIA

SCRIPPS COLLEGE

ANNUAL FINANCIAL REPORT

2004 and 2003

SCRIPPS COLLEGE

2004 and 2003

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SCRIPPS
THE WOMEN'S COLLEGE
• CLAREMONT •

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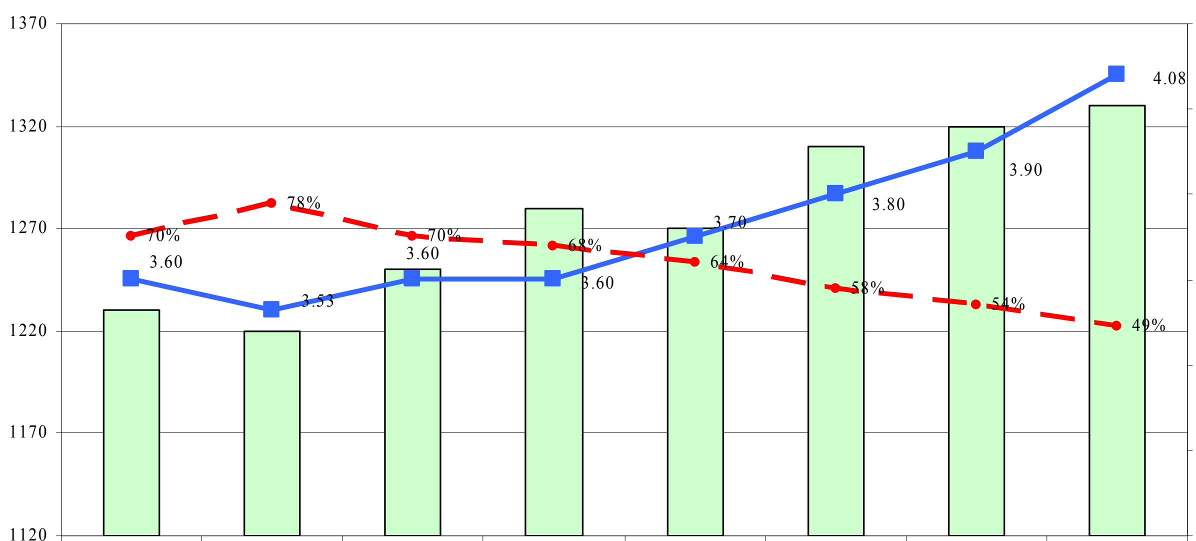
September 30, 2004

Dear Members of the Board of Trustees and Friends of Scripps College:

On June 30, 2004 the College celebrated the completion of the Campaign for the Scripps Woman with $101 million raised over a seven year period. This was fully $16 million over the $85 million goal set in 1997 and a gratifying endorsement of the mission of the College. Remarkably, 87% of the total living alumnae contributed to the Campaign as well as hundreds of friends of Scripps.

Seven years is a long time in the life of a college. Since the Campaign started, 10 classes (1998-2007) have been a part of the student body – approximately 1800 students, almost 20% of the total living alumnae. During this period the size of the student body has grown from 714 to 821, the endowment has increased from $129 million to $179 million and the selectivity of the admission process has improved from 70% to 49% as illustrated in the table below. Additions to financial aid resources and growth in the availability of merit-based scholarships have contributed to this positive trend.



	Fall 1997	Fall 1998	Fall 1999	Fall 2000	Fall 2001	Fall 2002	Fall 2003	Fall 2004
SAT (Combined)	1230	1220	1250	1280	1270	1310	1320	1330
GPA	3.60	3.53	3.60	3.60	3.70	3.80	3.90	4.08
Percent Admitted	70%	78%	70%	68%	64%	58%	54%	49%

The campus has also been transformed. The Malott Commons has changed not only the campus dining program but also the social climate of the community by providing one place for everyone to go daily; for meals, for mail and for Motley coffee.

Gabrielle Jungels-Winkler Hall was the first new residence hall on the campus since 1966. This addition, together with the infill of the old kitchens and services in the residence halls and the remodel of Wilbur Hall, added 157 beds to the College's residential life program, an increase of 26% in student housing.

The Performing Arts Center provided needed instructional space for the Music Department and serves as a valuable addition to the cultural resources of the campus. The new swimming pool is the first of a three phase project to construct recreational and fitness facilities for the health and wellness of the community.

The table below shows the fund raising results by component compared to the goal in each area. Like all other capital campaigns, the actual results can vary from the goals by a significant margin.

	TOTAL ($000)	GOAL ($000)	OVER (UNDER)
ENDOWMENT			
Academic Program and Faculty Support	$ 22,706	$ 28,000	$ (5,294)
Students and Campus community	3,167	4,500	(1,333)
Scholarship and Financial Aid	13,439	15,000	(1,561)
Technology	9	3,000	(2,991)
Historic Preservation and Maintenance	757	2,000	(1,243)
Unrestricted/General Endowment	13,660	-	13,660
Subtotal Endowment	**53,738**	**52,500**	**1,238**
FACILITIES AND BUILDING FUND	24,513	22,500	2,013
FUND FOR NEW AND EMERGING NEEDS	3,757	1,000	2,757
ANNUAL OPERATIONS SUPPORT	14,843	9,000	5,843
UNDESIGNATED CAMPAIGN GIFTS	1,253	-	1,253
OTHER	3,054	-	3,054
GRAND TOTAL	**$ 101,158**	**$ 85,000**	**$ 16,158**

Since the campaign goals were established, the needs of the College changed and the attractiveness of certain projects waxed and waned. For example, our goal of $3 million for technology had no traction. It appears that an organization's ability to address changes in technology is assumed, a sort of sink or swim situation in the modern world.

On the overachieving side, the modest goal of renovating Garrison Theatre blossomed into a Performing Arts Center with new facilities for the music department, for studios, practice rooms, classrooms, library and recital hall.

In the academic area, nine new faculty chairs were established to bring the total number of endowed professorships to 18 or 64% of the number of full professors on the faculty.

The undesignated campaign gifts are scheduled to be moved, by trustee resolution and donor designation, into some of the endowment areas of the campaign later in the current fiscal year.

The following report of the independent auditors and financial statements present the financial position of the College for the year ended June 30, 2004.

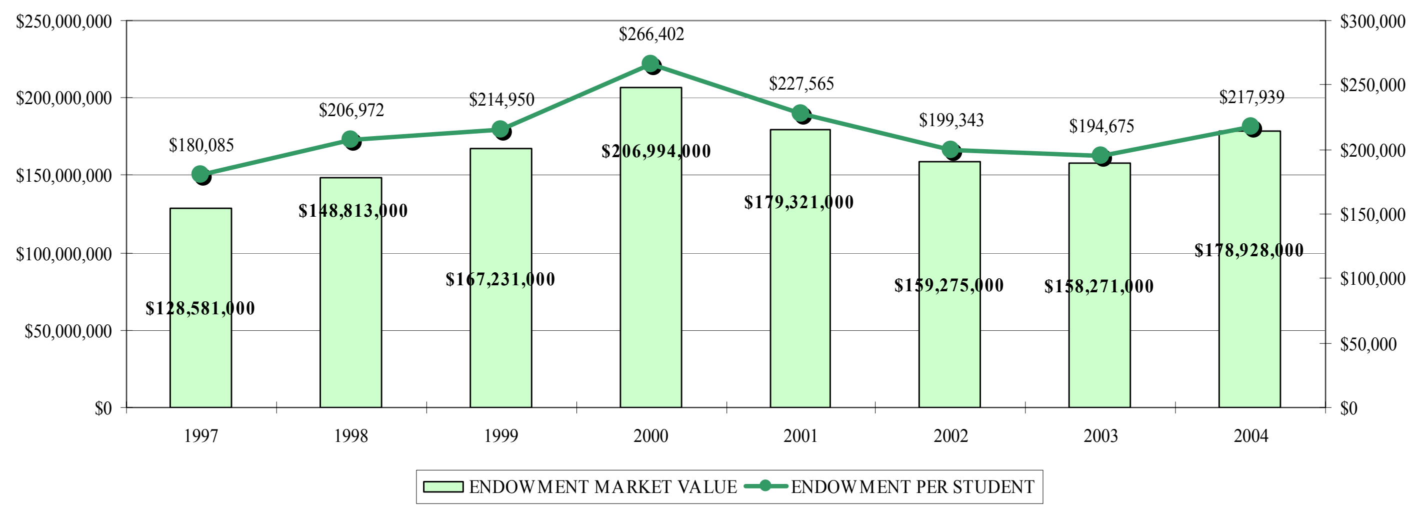
During the fiscal year total assets have grown 7% to almost $300 million (page 6). This represents more than a 50% increase from the June 30, 1997 figure. Net assets enjoyed a 10% increase this year to $265 million, accounted for principally by an increase of $21 million in the market value of the endowment.

On page 7 the Statement of Activities shows an operating deficit of $633,000, after giving effect to $2.6 million in depreciation expense. Both operating revenue and expenses increased by over $2 million.

The Statement of Cash Flows on page 9 shows cash used in operations of $8.3 million. This figure, however, does not include over $6 million of appropriated realized gains associated with the College's endowment spending policy. Cash used in investing activities of $346,000 comprises the purchase and sale of investments (principally the endowment), improvements to the campus facilities and student and faculty loan activity. The sizable cash provided by financing activities of $9.3 million shows the effect of contributions and life income transactions net of principal payments on debt.

The Statement of Changes in Endowed Equity on page 10 tells the endowment story. It was a good year for the investments of the College with a 16.1% total return on the investment pool. In addition to the $25 million in investment returns there were $4.3 million in contributions. Over $9 million was distributed in accordance with the College's spending policy.

The table below shows the endowment market value and endowment per student since 1997. Although it has been a bit of a roller coaster ride in these volatile markets, the Investment Committee of the Board of Trustees believes that the long term investment strategy favors equities over fixed income securities. To dampen this volatility the asset allocation of the investment pool has, over the last several years, increased the allocation to inflation hedging assets, absolute return managers, hedge funds event arbitrage, buyout funds and foreign currency common stock. Footnote 4 on page 20 shows the total investments of the College by asset type.



SUMMARY

The end of a capital campaign may be a punctuation point in the life of the College but it is not the end of the story. We are a different college than the Scripps of seven years ago; larger, better endowed and more selective. But we are also the same college, dedicated to a residential liberal arts program that empowers women to achieve their career and personal goals. Our current success can serve as a platform for future accomplishments on the road to achieving our mission to become the college which offers the best liberal arts education in America.

A new strategic planning process has already begun at the College. Over the next year, a steering committee will be formed, a consultant hired, and students, faculty and staff recruited to participate in planning the next chapter in the Scripps story.

Respectfully submitted,

James H. Manifold
Vice President of Business Affairs/Treasurer

SCRIPPS COLLEGE

REPORT ON AUDITED FINANCIAL STATEMENTS

For The Years Ended June 30, 2004 and 2003

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
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Los Angeles CA 90071
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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
Scripps College
Claremont, California

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows, present fairly, in all material respects, the financial position of Scripps College (the "College") at June 30, 2004 and 2003, 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. 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 of these statements 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 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule included on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 30, 2004

SCRIPPS COLLEGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2004 and 2003

	2004	2003
ASSETS		
Current assets		
Cash	$ 867,737	$ 220,577
Accounts receivable, net (Note 2)	863,731	1,011,563
Notes receivable, net (Note 2)	565,662	560,667
Contributions receivable (Note 3)	3,478,799	3,887,948
Prepaid expenses, deposits, and other	138,665	156,849
Investments (Note 4)	7,900,000	7,700,000
Assets whose use is limited (Note 4)	2,200,000	1,000,000
Total current assets	16,014,594	14,537,604
Non current assets		
Notes receivable, net (Note 2)	4,148,191	4,111,562
Contributions receivable, net (Note 3)	7,860,694	10,323,644
Investments (Note 4)	184,434,165	163,161,547
Investments held as a reserve for depreciation (Note 4)	6,616,291	6,463,996
Collections (Note 1)	15,996,840	15,938,141
Plant facilities		
Land and land improvements	5,049,347	5,047,822
Buildings	75,034,402	62,915,772
Equipment and furnishings	8,522,379	7,681,436
Property held for future use	1,274,368	1,274,368
Construction in progress	1,048,080	12,395,561
Accumulated depreciation	(26,483,378)	(23,920,891)
Net plant facilities	64,445,198	65,394,068
Total assets	$ 299,515,973	$ 279,930,562

	Endowment	Invested in plant and other	2004	2003
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued liabilities			$ 2,269,199	$ 3,862,376
Current portion of notes and bonds payable (Note 6)			410,000	2,118,189
Deposits and deferred revenue			503,080	549,212
Total current liabilities			3,182,279	6,529,777
Non current liabilities				
Life income and annuities payable (Note 5)			4,474,589	4,019,346
Payable to Claremont University Consortium			53,817	60,830
Liability for staff retirement plan			565,983	773,472
Notes and bonds payable (Note 6)			24,029,820	24,405,548
Government advances for student loans			1,722,785	1,864,387
Funds held in trust for others (Note 7)			161,950	203,317
Total liabilities			34,191,223	37,856,677
Net assets				
Unrestricted	$ 110,090,168	$ 57,772,096	167,862,264	144,012,790
Temporarily restricted	2,602,644	19,027,479	21,630,123	27,266,194
Permanently restricted	67,563,337	8,269,026	75,832,363	70,794,901
Total net assets	$ 180,256,149	$ 85,068,601	265,324,750	242,073,885
Total liabilities and net assets			$ 299,515,973	$ 279,930,562

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

SCRIPPS COLLEGE

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2004 and 2003

	2004	2003
Unrestricted Net Assets		
Revenues and releases of net assets:		
Tuition, room and board	$ 28,440,813	$ 26,545,342
Less: financial aid	7,557,352	6,595,842
Net student revenues (Note 8)	20,883,461	19,949,500
Contributions to operations	3,044,624	1,785,014
Federal grants and contracts	414,129	416,908
Spending policy income	8,563,086	9,184,429
Other investment income, net	231,753	303,536
Other revenue	885,119	707,182
Release of temporarily restricted net assets:		
Operations	2,305,345	1,785,859
Annuity and life income	115,226	140,697
Total revenues and release of net assets	36,442,743	34,273,125
Expenses:		
Academic program	18,188,242	16,917,140
Co-curricular program	10,610,822	10,190,639
Marketing	4,807,810	4,749,519
Administrative and general	3,468,986	3,132,368
Total expenses	37,075,860	34,989,666
Operating deficit (Note 10)	(633,117)	(716,541)
Other changes in unrestricted net assets:		
Non-operating bequests and gifts in kind	94,977	1,642,008
Release of temporarily restricted net assets - plant	8,667,390	1,518,007
Redesignation of net assets	(107,643)	(10,332)
Net realized and unrealized gains (losses) on investments net of allocation to operations	15,917,382	(6,394,249)
Other comprehensive pension income (expense)	260,000	(776,879)
Transfer to Claremont University Consortium	(349,515)	(446,639)
Change in unrestricted net assets	23,849,474	(5,184,625)
Unrestricted net assets, beginning of year	144,012,790	149,197,415
Unrestricted net assets, end of year	$ 167,862,264	$ 144,012,790

The accompanying notes are an integral part of these statements.

SCRIPPS COLLEGE

STATEMENTS OF ACTIVITIES, Continued
For the years ended June 30, 2004 and 2003

	2004	2003
Temporarily Restricted Net Assets		
Revenue:		
Contributions	$ 4,024,283	$ 7,521,866
Spending policy income	760,377	796,611
Other investment income, net	14,251	8,930
Other revenue	171,216	132,714
Total revenues	4,970,127	8,460,121
Other changes in temporarily restricted net assets:		
Actuarial adjustment of annuity and life income liabilities	548,855	15,734
Release of temporarily restricted net assets:		
Operations	(2,305,345)	(1,785,859)
Annuity and life income	(115,226)	(140,697)
Plant	(8,667,390)	(1,518,007)
Redesignation of net assets	16,241	(624,152)
Net loss on investments	(83,333)	(2,114)
Change in temporarily restricted net assets	(5,636,071)	4,405,026
Temporarily restricted net assets, beginning of year	27,266,194	22,861,168
Temporarily restricted net assets, end of year	$ 21,630,123	$ 27,266,194
Permanently Restricted Net Assets		
Revenues:		
Contributions	$ 4,463,039	$ 424,472
Spending policy income	141,000	15,278
Other investment income, net	(8,690)	48,649
Other revenue	10,547	8,331
Total revenues	4,605,896	496,730
Other changes in permanently restricted net assets:		
Actuarial adjustment of annuity and life income liabilities	348,129	515,415
Redesignation of net assets	91,402	634,484
Net loss on investments	(7,965)	(3,003)
Change in permanently restricted net assets	5,037,462	1,643,626
Permanently restricted net assets, beginning of year	70,794,901	69,151,275
Permanently restricted net assets, end of year	$ 75,832,363	$ 70,794,901
Total change in net assets:		
Total net assets, beginning of year	$ 242,073,885	$ 241,209,858
Total year to date change in net assets	23,250,865	864,027
Total net assets, end of year	$ 265,324,750	$ 242,073,885

The accompanying notes are an integral part of these statements.

SCRIPPS COLLEGE

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Tuition, room and board, net of financial aid	$ 20,937,554	$ 19,838,277
Gifts, grants and contracts	3,497,653	2,434,651
Investment income	2,460,221	2,241,438
Other revenue	1,003,601	929,061
Payments for interest on debt	(1,390,569)	(1,437,959)
Payments to employees and suppliers	(34,795,858)	(30,390,877)
Net cash used in operating activities (Notes 10 and 11)	(8,287,398)	(6,385,409)
Cash flows from investing activities:		
Purchase of plant facilities	(1,578,616)	(9,303,815)
Purchase of collections	-	(18,427)
Proceeds from sale of investments	54,861,526	61,908,237
Purchase of investments	(53,550,011)	(54,509,425)
Loans made to students and faculty	(958,138)	(886,000)
Collection of student and faculty loans	878,914	967,091
Net cash used in investing activities	(346,325)	(1,842,339)
Cash flows from financing activities:		
Payments to life income beneficiaries	(541,431)	(628,412)
Investment income on life income investments	107,518	453,691
Principal payments on debt	(2,125,202)	(1,416,165)
Contributions restricted for loans	79,033	9,562
Contributions restricted for endowment	3,859,354	1,008,586
Contributions restricted for life income contracts	654,752	707,184
Contributions restricted for plant expenditures	6,512,286	4,381,201
Contributions for restricted purposes	869,332	2,987,373
Change in advances for student loans	(134,759)	37,477
Net cash provided by financing activities	9,280,883	7,540,497
Net increase (decrease) in cash	647,160	(687,251)
Cash at beginning of year	220,577	907,828
Cash at end of year	$ 867,737	$ 220,577

The accompanying notes are an integral part of these statements.

SCRIPPS COLLEGE

SUPPLEMENTAL SCHEDULE
STATEMENTS OF CHANGES IN ENDOWED EQUITY
For the years ended June 30, 2004 and 2003

	2004	2003
Pooled investment return:		
Earned income	$ 2,156,441	$ 1,956,845
Change in realized and unrealized net appreciation of investments	23,053,752	1,742,418
Net investment return	25,210,193	3,699,263
Endowment returns distributed for operations	(8,563,086)	(9,184,429)
Endowment returns distributed for temporarily restricted net assets	(760,377)	(796,611)
Endowment returns reinvested for permanently restricted net assets	141,000	15,278
Net investment returns reinvested (utilized)	16,027,730	(6,266,499)
Other changes in endowed equity:		
Contributions	4,253,312	225,986
Other, net		
Transfers to quasi endowment	591,481	1,521,467
Redesignation of net assets	123,438	610,517
Matured annuity and life income agreements	54,917	2,122,205
Total other changes in endowed equity	5,023,148	4,480,175
Net change in endowed equity	21,050,878	(1,786,324)
Endowed equity, beginning of year	159,205,271	160,991,595
Endowed equity, end of year	$ 180,256,149	$ 159,205,271
Endowed equity is composed of the following assets at June 30,		
Contributions receivable, net of discount (Note 3)	$ 1,328,155	$ 934,196
Investments (Note 4)	178,927,994	158,271,075
	$ 180,256,149	$ 159,205,271

See report of independent auditors.

1. Summary of Significant Accounting Policies:

Founded in 1926, Scripps College (the "College") is an independent, liberal arts college for women with a distinctive interdisciplinary core curriculum offering instruction in the humanities, fine arts, and the natural and social sciences. The College has an enrollment of approximately 800 students. The campus is on the National Register of Historic Places.

Its mission is to educate women to develop their intellect and talents through active participation in a community of scholars, so that as graduates they may contribute to society through public and private lives of leadership, service, integrity and creativity.

Scripps College is a nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The following accounting policies of the College are in accordance with those generally accepted for colleges and universities:

Basis of Presentation:

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net Asset Categories:

The accompanying financial statements present information regarding the College’s financial position and activities according to three categories of net assets: unrestricted, temporarily restricted, and permanently restricted. The three categories are differentiated by donor restrictions.

Unrestricted Net Assets:

Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets:

Net assets that are subject to donor-imposed restrictions that either lapse or can be satisfied.

Permanently Restricted Net Assets:

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

1. Summary of Significant Accounting Policies, Continued:

Revenue and Expense Recognition:

Tuition and Fees – Student tuition and fees are recorded as revenues in the year during which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenues.

Investment Return – Investment income and gains and losses on investments and changes in other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

Contributions - Contributions, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate category of net assets. Contributions where donor restrictions are met within the same fiscal year as the contribution are included in unrestricted net assets. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received in future periods are discounted at an appropriate discount rate.

Expenses - Expenses are generally reported as decreases in unrestricted net assets. The financial statements present expenses by functional classification in accordance with the overall educational and research mission of the college.

Operating Revenues and Expenses:

The College reports operating revenues and expenses in the unrestricted net asset section of the Statement of Activities. Operations are those annual activities which support the core mission of the College; "to educate women to develop their intellect and talents through active participation in a community of scholars, so that as graduates they may contribute to society through public and private lives of leadership, service, integrity and creativity."

Operating revenues include charges or tuition, room and board, net of financial aid, gifts and grants, spending policy income, other investment income, releases of temporarily restricted net assets for operations and unrestricted annuity and life income, and miscellaneous income.

Unrestricted gifts and bequests in excess of $1 million each are considered non operating, as are gifts in kind. The Board of Trustees designates unrestricted gifts in excess of $1 million for the benefit of the College. Gifts in kind, due to their non cash nature, are not available to pay for operating expenditures.

Operating expenses (for which the operating revenues are used) include salaries and benefits, departmental expenses, depreciation, amortization and interest. These expenses are classified into four cost centers called; Academic Program, Co-curricular Program, Marketing and Administrative and General.

1. Summary of Significant Accounting Policies, Continued:

Operating Expense Categories and Allocation of Certain Expenses:

The Statements of Activities presents expenses by four functional categories. Academic Program includes expenses for instruction and related academic support departments such as libraries, the Dean of Faculty and Registrar Offices. Co-curricular Program includes expenses associated with the residential life operation of the College and related support departments such as Dean of Students Office and Career Planning and Research. Marketing expenses for revenue development for the College include departments such as Admission/Financial Aid, Public Relations, Alumnae Relations and the Development Office. Administrative and General includes expenses such as administrative computing, planning, institutional research, liability insurance, legal and audit fees, and the President and Treasurer's Offices.

Depreciation, interest expense and the cost for the operation and maintenance of the physical plant are allocated to the four functional categories based on building square footage dedicated to that specific function. Computing costs are allocated based upon estimated use.

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 substantially expires. 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. The College follows the policy of reporting donor-imposed restricted contribution and endowment income whose restrictions are met in the same period as received as unrestricted support. It is also the College's policy to recognize the fulfillment of the restrictions on contributions of cash or other assets received for the acquisitions of long-lived assets when the long-lived assets are placed into service.

Cash:

For the purposes of reporting cash flows, cash includes demand deposit bank accounts.

Investments:

Cash Equivalents – Resources invested in money market funds are classified as cash equivalents, including any such investments held by external investment managers. Resources invested in money market funds for loan programs are classified as short term investments.

Marketable Securities - Marketable securities are reported at fair market value, except for trust deed loans, certain real estate investments, and other miscellaneous assets which are stated at cost. Venture capital investments are stated at fair value as of the most recent valuation date prior to year-end. The cost of securities sold is determined by the average cost method and is used to compute realized gains and losses. Unrealized gains and losses reflect the changes in the market values of investments from the prior year. The date of record for investments is the trade date.

1. Summary of Significant Accounting Policies, Continued:

Alternative Investments:

Diversified limited partnership interests are invested in both publicly and privately owned securities. The fair values of private investments are based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determinable market values. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of similar investments and other pertinent information. The private investments have a high concentration of pre-initial public offering securities, subjecting these investments to market value volatility. Net realized and unrealized gains (losses) on the Statement of Activities for the years ended June 30, 2004 and 2003 is $15,993,268 and $973,909.

Management of Pooled Investments:

The College follows an investment policy, which anticipates a greater long-term return through investing for capital appreciation, and accepts lower current yields from dividends and interest. In order to offset the effect of lower current yields for current operations, the Board of Trustees has adopted a spending policy for pooled investments whereby the amount of investment return available for current operations is determined by applying 5.20% to the average market value of pooled investments. If the ordinary income of pooled investments is insufficient to provide the full amount of investment return specified, the balance may be appropriated from the available cumulative realized gains of the pooled investments. Cumulative net realized gains and transfers of ordinary income in excess of the spending policy ("cumulative gains") are held in unrestricted net assets and are available for appropriation under the College's spending policy. At June 30, 2004 and 2003, these cumulative gains totaled approximately $76,183,000 and $79,305,000, respectively.

Underwater Endowments:

Recent declines in the market value of the investment pool have created a situation where the fair value of certain endowments is less than the cost basis of the original gift. This condition has been referred to as an "underwater endowment". Net losses on permanently restricted endowment funds are recorded as decreases in unrestricted net assets. The College has received legal advice, based upon the Uniform Management of Institutional Funds Act, that such endowments should suspend spending until the market value recovers to the original gift value. The Board of Trustees has approved a policy whereby the status of such endowments is determined once each year before the fiscal year begins. Where practicable, living donors have been contacted to seek a waiver of this condition so that the intention of the donor may be fulfilled. For all other "underwater endowments", the funds accrue their allocated spending policy income based upon their proportionate share of the investment pool but it is not to be spent. Further, the accumulated spending policy income is reinvested in the endowment in order to hasten the recovery time to reach original gift value. At June 30, 2004 and 2003 the amount of all the endowments without a donor waiver that had a fair value below their original cost basis totaled approximately $3,267,000 and $3,844,000 respectively. The fair value amount below original cost for June 30, 2004 and 2003 was approximately $226,000 and $504,000, respectively.

1. Summary of Significant Accounting Policies, Continued:

Assets Whose Use is Limited:

Indenture requirements of bond financing (see Note 6, "Note and Bonds Payable") provide for the establishment and maintenance of various accounts with trustees. The indenture terms limit the use of these funds to the construction of plant facilities and payment of principal and interest to bond holders. Assets whose use is limited are comprised of cash equivalents, government and corporate securities and are recorded at cost, which approximates fair value.

Collections:

The College capitalizes its collections of works of art and rare books at their appraised or estimated current market value upon date of gift. In some cases, collection items held solely for their potential educational value or historic significance, or where the cost to establish the current market value was deemed to exceed the benefit, were not assigned value for the purpose of capitalization.

Plant Facilities:

Plant facilities consists of property, plant and equipment and is stated at cost, representing the original purchase price or fair market value at the date of the gift, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings, permanent improvements and equipment (generally 4 years for computing equipment, 7 years for other equipment, 25 years for permanent improvements, and 40 years for buildings).

Annuity and Life Income Contracts and Agreements:

The College has legal title to annuity and life income contracts and agreements subject to life interests of beneficiaries. No significant financial benefit is now being or can be realized until the contractual obligations are met. However, the costs of managing these contracts and agreements are included in operating expenditures.

The College uses the actuarial method of recording annuity and life income contracts and agreements. Under this method, when a gift is received, the present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as a contribution in the appropriate net assets category. Investment income and gains are credited, and annuity payments and investment losses are charged, to the liability accounts, with periodic adjustments made between the liability and the net assets to record actuarial gains or losses. The actual liability is based on the present value of future payments discounted at rates ranging from 4.0% to 7.5% and over estimated lives according to the 1983 Group Annuity Mortality Tables.

1. Summary of Significant Accounting Policies, Continued:

Use of Estimates:

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

Fair Value of Financial Instruments:

A financial instrument is defined as a contractual obligation that ultimately ends with the delivery of cash or an ownership interest in an entity. Disclosures, included in these notes, regarding the fair value of financial instruments have been derived using external market sources, estimates using present value or other valuation techniques. Determination of the fair value of loan fund receivables, which are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

2. Accounts and Notes Receivable:

Accounts receivable at June 30, 2004 and 2003 are as follows:

	2004	2003
Student accounts	$ 241,785	$ 337,132
Federal and private grants and contracts	64,181	97,871
Other Claremont Colleges	126,990	294,699
Gifts	327,385	184,684
Due from broker	6,135	113,016
Travel advances	72,075	25,255
Other	77,754	17,983
	916,305	1,070,640
Less allowance for doubtful accounts	(52,574)	(59,077)
Total accounts receivable, net	$ 863,731	$ 1,011,563

Notes receivable at June 30, 2004 and 2003 are as follows:

	2004	2003
Student notes	$ 4,777,339	$ 4,772,719
Other	114,500	54,500
	4,891,839	4,827,219
Less allowance for doubtful students notes	(177,986)	(154,990)
Total notes receivable, net	4,713,853	4,672,229
Less current portion	(565,662)	(560,667)
Non current notes receivable	$ 4,148,191	$ 4,111,562

3. Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Promises to give are recorded after discounting to the present value of future cash flows. The discount rate for the years ended June 30, 2004 and 2003 range from 1.7% to 5.7%.

Unconditional promises to give at June 30, 2004 and 2003 are expected to be realized in the following periods:

	2004	2003
In one year or less	$ 3,597,728	$ 4,030,373
Between one year and five years	1,623,886	4,724,444
More than five years	6,462,711	6,129,262
	11,684,325	14,884,079
Less discount	(344,832)	(672,487)
	11,339,493	14,211,592
Less current portion	(3,478,799)	(3,887,948)
Contributions receivable, net	$ 7,860,694	$ 10,323,644

Contributions receivable at June 30, 2004 and 2003 are intended for the following uses:

	2004	2003
Endowment	$ 1,328,155	$ 934,196
Non-trustee Charitable Remainder Unitrusts	6,247,712	5,849,439
Other	3,763,626	7,427,957
Total	$ 11,339,493	$ 14,211,592

4. Investments:

Where permitted by gift agreement and/or applicable government regulations, investments are pooled. Pooled investments and allocation of pooled investment income are accounted for on a unit value method. The following is a summary of data pertaining to this method for the years ended June 30, 2004 and 2003:

	2004	2003
Unit market value at end of year	$ 397.26	$ 361.31
Units owned:		
Unrestricted net assets	48,170	46,204
Temporarily restricted net assets	22,002	21,416
Permanently restricted net assets	395,802	384,939
Total	465,974	452,559

Annuities issued by the College to California residents are maintained in a separate trust in accordance with the California State Department of Insurance regulations. The assets of this trust are invested in the College's investment pool. At June 30, 2004 and 2003 the California Annuitants had 9,159 and 8,646 units outstanding with a unit market value of $397.26 and $361.31, respectively.

Investment income related to College investments, net of management and custody fees of approximately $528,523 and $545,998 for the years ended June 30, 2004 and 2003, respectively, is as follows:

	2004	2003
Pooled investments income	$ 2,514,194	$ 2,173,809
Pooled investments gains appropriated	7,241,555	8,115,995
Total spending policy income and gains	9,755,749	10,289,804
Less amounts allocated to annuity and life income contracts and agreements	(291,286)	(293,486)
Total spending policy income	$ 9,464,463	$ 9,996,318
Other investment income	$ 331,055	$ 494,713
Less amounts allocated to annuity and life income contracts and agreements	(93,741)	(133,598)
Total other investment income	$ 237,314	$ 361,115
Realized gain/(loss) on investments	$ 4,027,194	$ (2,730,103)
Unrealized gains on investments	19,040,445	4,446,732
Pooled investment gains appropriated	(7,241,555)	(8,115,995)
Net realized and unrealized losses on investments net of allocation to operations	$ 15,826,084	$ (6,399,366)

4. Investments, Continued:

It is the College's policy to invest and maintain a diversified investment portfolio. The fair value of investments are based on the quoted market prices, analytical pricing methods for investments for which there is no market and the fair value of limited partnership net assets in proportion to the College's interest some are at cost, which we have not addressed. The following schedule summarizes investments at June 30:

Investment by asset type:

	2004			2003		
	Cost	Fair Value		Cost	Fair Value	
Cash equivalents	$ 9,311,677	$ 9,311,677		$ 5,927,331	$ 5,927,331	
Short term investments	2,257,652	2,257,652	*	2,248,923	2,248,923	*
Domestic common stock	52,627,383	59,298,634		61,816,961	59,335,869	
Foreign currency common stock	21,463,191	24,816,230		21,185,402	19,249,473	
Other equities	404,764	491,329		207,173	236,788	
Domestic fixed income	21,377,160	21,041,867		24,558,456	25,801,867	
Equity real estate	5,606,727	7,022,000		5,831,727	7,282,261	
Real properties	50,794	290,620		50,794	290,620	
Venture capital	18,257,775	9,175,744		19,088,489	9,731,172	
Oil and gas	515,213	1,364,991		814,014	1,365,411	
Investments held in trust by others	657,275	657,275		616,890	616,683	
Assets whose use is limited	5,598,281	5,598,281	*	5,673,996	5,673,996	*
Buyouts	6,594,978	7,064,174		6,756,717	5,300,954	
Event arbitrage	11,000,000	22,565,187		11,000,000	20,621,724	
Hedge funds	14,572,907	21,802,055		6,584,054	11,995,330	
Distressed debt	6,762,686	7,719,000		1,800,000	2,037,200	
Other assets	673,740	673,740	*	609,941	609,941	*
Total by asset type	$177,732,203	$201,150,456		$174,770,868	$178,325,543	

Investment by program:

	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Investment pool	$161,635,367	$185,113,599	$159,496,175	$163,472,779
Separate investments	16,096,836	16,036,857	15,274,693	14,852,764
Total by program	$177,732,203	$201,150,456	$174,770,868	$178,325,543

* = Cost

4. Investments, Continued:

Investments by category:

	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Endowment and funds functioning as endowment	$156,349,318	$178,927,994	$154,634,556	$158,271,075
Annuity and life income funds	9,549,325	10,422,064	9,263,939	9,216,540
Reserve for depreciation	6,553,145	6,616,291	6,497,159	6,463,996
Other	5,280,415	5,184,107	4,375,214	4,373,932
Total by category	$177,732,203	$201,150,456	$174,770,868	$178,325,543

5. Life Income and Annuities Payable:

Life income and annuities payable of $4,474,589 and $4,019,346 at June 30, 2004 and 2003, respectively, represent actuarially determined liabilities for contractual obligations under gift annuities, unitrusts, and pooled income funds.

6. Note and Bonds Payable:

At June 30, 2004 and 2003, note and bonds payable were comprised of the following:

	2004	2003
Note - Revolving line of credit agreement	$ -	$ 1,728,189
Bond - College and University Facility Loan Trust One	73,000	118,000
Bonds - California Educational Facilities Authority (CEFA) Series 1997C	2,565,000	2,715,000
Bonds - CEFA Series 1999	10,255,000	10,450,000
Bonds - CEFA Series 2001	12,250,000	12,250,000
	25,143,000	27,261,189
Less unamortized discount and issuance costs	(703,180)	(737,452)
Less current portion	(410,000)	(2,118,189)
	$ 24,029,820	$ 24,405,548

6. Note and Bonds Payable, Continued:

The bond payable to the College and University Facility Loan Trust One is due in October 2005. One installment of $45,000 is due in fiscal year 2005. Of the $45,000 due in October 2005, $17,000 was prepaid in 1968. Interest is payable annually at a rate of 3%. Collateral consists of residence halls with a combined cost of $1,510,599 and investments consisting of cash and securities of $183,758 held by a trustee. The bonds are subject to redemption at prices ranging from 101% to 100%.

The CEFA Series 1997C bonds are due in 2015. Annual installments range from $192,900 in 2005 to $327,400 in 2015. Interest is payable semiannually at rates ranging from 5.0% to 5.5%. Bonds maturing after March 1, 2007 with principal balances totaling $2,045,000 are subject to redemption at prices ranging from 102% to 100%. The CEFA Series 1997C bonds are collateralized by a CEFA Series 1990 loan agreement, due in annual installments ranging from $160,000 in 2005 to $320,000 in 2015 at a rate of 7.0%. The total principal and interest payments made by the College under the CEFA Series 1990 loan agreement fund the CEFA Series1997C bond payments.

The CEFA Series 1999 bonds are due in 2030. Annual installments range from $205,000 in 2005 to $685,000 in 2030. Interest is payable semiannually at rates ranging from 4.0% to 5.1%. Bonds maturing after February 1, 2009 with principal balances totaling $9,130,000 are subject to optional redemption at prices ranging from 101% to 100%.

The CEFA Series 2001 bonds are due in 2032. Annual installments range from $25,000 in 2007 to $1,675,000 in 2032, and bear interest at rates ranging from 5.00% to 5.25%. Bonds maturing after August 1, 2011 with principal balances totaling $12,070,000 are subject to optional redemption at a price equal to the principal amount redeemed.

At June 30, 2004, the note and bond maturities were as follows:

Fiscal Year Ending June 30,	Principal Amount
2005	$ 410,000
2006	418,000
2007	435,000
2008	460,000
2009	485,000
Thereafter	22,935,000
	$ 25,143,000

6. Note and Bonds Payable, Continued:

The CEFA Series 2001, 1999 and 1997C bond agreements contain various restrictive covenants which include the maintenance of certain financial ratios, as defined in the agreement.

The College has a $3,000,000 line of credit with Wells Fargo Bank. Any borrowings on the line would bear interest at the bank's prime rate. There were no borrowings outstanding on the line at June 30, 2004 or 2003.

The estimated fair value of the College's bonds payable was approximately $25,021,000 and $26,340,000 at June 30, 2004 and 2003, respectively. This fair value was estimated based upon the discounted amount of future cash outflows based on current rates available to the College for debt of the same remaining maturities.

7. Funds Held in Trust for Others:

Included in funds held in trust for others is a non-interest bearing loan of $134,499 at June 30, 2004 and 2003, which was made to the College by the Weingart Foundation (the "Foundation"). The College is required to use the funds to make non-interest-bearing loans to qualified students. Also included, at June 30, 2004 and 2003 is a fifty percent charitable remainder interest of $27,451 and $68,818, respectively held in trust by the College for a third party.

8. Net Student Revenues:

Student revenues for the years ended June 30, 2004 and 2003 consist of the following:

	2004	2003
Tuition and fees	$ 22,390,180	$ 21,024,404
Room and board	6,050,633	5,520,938
Gross student revenues	28,440,813	26,545,342
Less:		
Sponsored student aid	(2,225,562)	(2,468,328)
Unsponsored student aid	(5,331,790)	(4,127,514)
Net student revenues	$ 20,883,461	$ 19,949,500

9. Fund Raising Expense

Included in Marketing Expense in the Statements of Activities are approximately $1,841,000 and $1,867,000 of fund raising expenses for the years ended June 30, 2004 and 2003, respectively.

10. Cash Used in Operating Activities:

Consistent with the College's investment policy, lower current yields from dividends and interest are supplemented by appropriation from realized gains to provide the full amount of investment return specified for operations. Approximately $7,242,000 and $8,116,000 for the years ended June 30, 2004 and 2003, respectively, have been appropriated for operations and are reported in the Statements of Cash Flows as proceeds from the sale of investments in cash flows from investing activities. A reconciliation of net cash used in operations on the Statements of Cash Flows to the operating surplus on the Statements of Activities for the years ended June 30, 2004 and 2003 are as follows:

	2004	2003
Net cash used in operations	$ (8,287,398)	$ (6,385,409)
Depreciation expense	(2,562,487)	(2,294,555)
Pooled investment gains appropriated	7,241,555	8,115,995
Temporarily and permanently restricted spending policy income	(901,377)	(811,889)
Temporarily and permanently restricted other investment income	(5,561)	(57,579)
Temporarily and permanently restricted other income	(181,763)	(141,045)
Release of temporarily restricted net assets to operations	2,420,571	1,926,556
Transfer to Claremont University Consortium	349,515	446,639
Gifts in kind	(1,277)	(6,032)
Decrease in unrestricted receivables, prepaid expenses, deposits and other	(264,263)	(202,280)
Decrease (increase) in accounts payable and accrued liabilities	1,513,236	(1,336,999)
Decrease in deposits and deferred revenue	46,132	30,057
Operating deficit	$ (633,117)	$ (716,541)

11. Cash Flow Reconciliation:

The change in the College's net assets is reconciled to net cash provided by operations for the years ended June 30, 2004 and 2003 as follows:

	2004	2003
Change in net assets	$ 23,250,865	$ 864,027
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	2,562,487	2,294,555
Gifts in kind	(93,700)	(114,042)
Realized (gain)/loss on sale of investments	(4,027,194)	2,730,103
Unrealized gains on investments	(19,040,445)	(4,446,732)
Amortization on bond discount	34,272	109,972
Comprehensive pension (income) expense	(260,000)	776,879
Adjustment of actuarial liability for life income agreements	(498,711)	(531,149)
Decrease in accounts and notes receivable	75,713	223,042
Decrease (increase) in contributions receivable	2,872,099	(871,144)
Decrease (increase) in prepaid expenses and deposits	16,054	(21,228)
(Decrease) increase in accounts payable and accrued liabilities	(1,600,014)	1,313,944
Decrease in deposits and deferred revenue	(46,132)	(30,057)
Defined benefit plan contributions under/(over) expense	52,506	(86,918)
Contributions for long-term investments	(11,585,198)	(8,596,661)
Net cash used in operating activities	$ (8,287,398)	$ (6,385,409)

12. Employee Benefit Plans:

The College participates in a defined contribution retirement plan which provides retirement benefits for academic employees and certain administrative personnel through Teachers Insurance and Annuity Association, The College Retirement Equity Fund, and Fidelity and Vanguard Mutual Funds. Under this defined contribution plan, College and participant contributions are used to purchase individual annuity contracts and investments equivalent to retirement benefits earned. Vesting provisions are full and immediate. Benefits commence upon retirement, and pre-retirement survivor death benefits are provided. College contributions to the plan for the years ended June 30, 2004 and 2003 totaled approximately $1,072,000 and $1,005,000, respectively.

12. Employee Benefit Plans, Continued:

The Claremont University Consortium administers a defined benefit plan ("The Plan") covering substantially all non-academic employees of the College, along with those of the other Claremont Colleges (Note 13). The Plan is in accordance with Employer Retirement Income Security Act of 1974. The benefits are based on years of service, career average compensation, and amount of employee contributions. Plan assets are invested in a diversified group of equity and fixed-income securities in an insurance company's separate and general accounts. The College's allocation of the net pension cost for the years ended June 30, 2004 and 2003 was approximately $288,000 and $119,000, respectively. The Plan was curtailed in the current year subsequent to the Plan's measurement date. The impact of the curtailment is a reduction in the benefit obligation. Additional information on the Plan can be obtained from the 2003-2004 report which includes the audited financial statements of the Claremont University Consortium.

13. Affiliated Institutions:

The College is a member of an affiliated group of colleges known as The Claremont Colleges. Each college is a separate corporate entity governed by its own board of trustees. Claremont University Consortium, a member of this group, is the central coordinating institution that provides common student and administrative services, including certain central facilities utilized by all The Claremont Colleges. The members of the group share the costs of these services and facilities. Amounts paid by the College for such services and use of facilities for the years ended June 30, 2004 and 2003 totaled approximately $2,674,000 and $2,349,000, respectively.

14. Commitments and Contingencies:

Contracts

The College has outstanding investment commitments in eleven limited partnerships totaling $56,000,000. At June 30, 2004 the College has invested approximately $47,027,000 and has a remaining commitment to invest an additional $8,973,000. Subsequent to June 30, 2004, the college committed to invest $10,000,000 in new limited partnerships.

The College has remaining commitments on contracts to complete remodeling and rehabilitation of an auditorium and music building totaling approximately $2,048,000 at June 30, 2004.

Litigation

Occasionally, the College is involved in lawsuits arising in the ordinary course of its operations. In the opinion of management, the ultimate resolution of these lawsuits is not expected to have a material effect on the College's financial position or change in net assets.

Federal Funding

Certain federal grants including financial aid which the College administers and for which it receives reimbursements are subject to audit and final acceptance by federal granting agencies. Current and prior year costs of such grants are subject to adjustment upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although the College expects such amounts, if any, would not have a significant impact on the financial position of the College.

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