SCRIPPS COLLEGE

FINANCIAL REPORT 2004–2005

CLAREMONT, CALIFORNIA

SCRIPPS COLLEGE

ANNUAL FINANCIAL REPORT

2005 and 2004

SCRIPPS COLLEGE

2005 and 2004

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SCRIPPS
THE WOMEN'S COLLEGE
• CLAREMONT •

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October 28, 2005

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

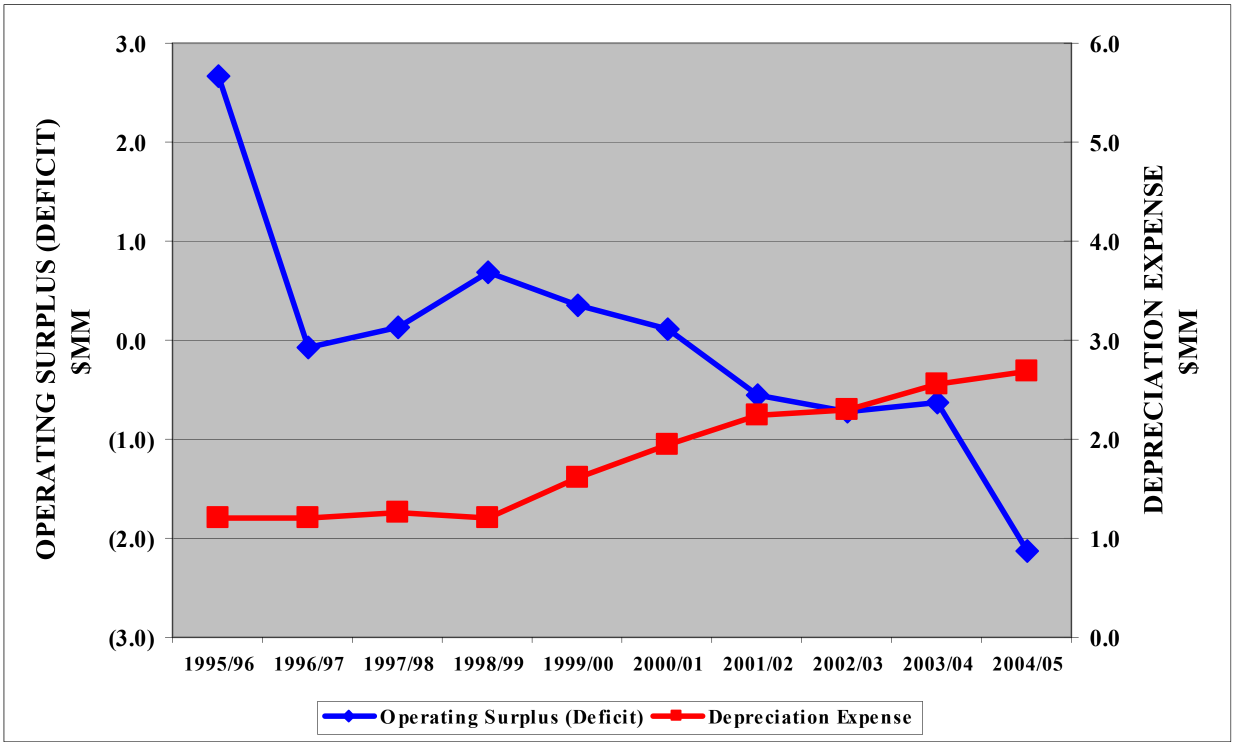
Fiscal 2004/05 was a challenging year for the College on many fronts. It was the first year after an enormously successful capital campaign that raised in excess of $100 million over seven years. Nevertheless, this year over $8 million in contributions were recorded plus an additional $4 million in pledge payments from previous commitments. This letter will highlight the achievements and challenges of the past year in the areas of operations, buildings and grounds, and endowment – all of which are becoming increasingly interrelated.

OPERATIONS

The Statement of Activities, beginning on page seven, illustrates an operating deficit of $2.1 million. While tuition, room and board revenues increased over $2 million, or 8%; student financial aid increased 11%, and spending policy income from endowment decreased by 4.8%. This was the second year of a three year planned decrease in endowment spending resulting from the financial market declines of 2001. The trustees elected to phase the projected $1.2 million decrease in spending over three years to smooth the effect on the operations of the College.

Expenses were up 6% to $39.3 million. Expenses for the study abroad program increased significantly due in part to renewed student interest in this program and to the decline in the purchasing power of the dollar abroad. The continued problems with workers' compensation insurance drove employee benefit costs higher to a record $3.95 million for this program.

The $2.1 million deficit includes a charge for depreciation expense of $2.7 million. Since the early 1990's the College has been working hard to clear deferred maintenance on the campus of some $16 million. In addition, a number of major buildings have been constructed or renovated such as; the Malott Commons (2000), Gabrielle Jungles-Winkler Hall (2001), Swimming Pool (2002), Performing Arts Center (2003) and Vita Nova Hall (2004). Since 1996, depreciation expense has more than doubled, from $1.2 to $2.7 million. Proving the old expression that "no good deed goes unpunished," the Budget Committee is appreciating the irony that the better we are as stewards of the campus, the worse the operations of the College appear. The table below shows this interplay between rising depreciation expenses and declining operating results.



On a positive note, one of the key financial indicators in higher education is the *age of plant ratio* which divides accumulated depreciation on plant assets by depreciation expense. *Ratio Analysis in Higher Education* suggests that a ratio of 14 years or less is an acceptable level for predominately undergraduate liberal arts colleges. This ratio shows Scripps College as a youthful 11 years.

BUILDINGS AND GROUNDS

In January 2005 the old music building was reopened as a renovated Vita Nova Hall. The central courtyard was named in memory of Mary Wig Johnson '35. This facility accommodates the Intercollegiate Women's Studies Program, the European Union Center of California, Human Resources and Summer Conferences/Special Events. All of these programs were formerly located in two houses surrounding the Performing Arts Center. The facility also provides new office space for the Motley to the View Coffeehouse and eight faculty offices. The Pattison Recital Hall is now a newly designed lecture hall with "smart classroom" technology.

One of the most vexing campus planning issues of the past year was the future of Elm Tree Lawn. After consulting with three arborists and a plant pathologist, it was determined that the trees were reaching the end of their life cycle. As a precautionary measure, four of the weakest trees have already been removed. The trustees of the Buildings and Grounds Committee approved a plan to purchase replacement Princeton elms and have them contract grown in a nursery. When the trees have reached a sufficient height and calibre they will be ready to replace the current landscape statement.

Another landscape project that has been completed is the replacement of the street trees on Columbia Avenue from 10th Street to Platt Boulevard (formerly 12th Street). All of the eucalyptus trees have been removed due to sustained attacks by beetle blight and lerp psyllid. To replace those removed, bottle trees (brachychiton populneus) were planted from 10th Street to 11th Street. Claremont Graduate University gave permission to plant the west side of the street as well. From 11th Street north are chinese tallow trees (sapium sebiferum) bridging across Columbia Avenue from Clark Hall to the Williamson Gallery. The top of the street is capped with two red oak trees as a gateway.

Looking to the future, the recreational athletic facility project has received a generous lead gift from the Seaver Institute. Construction drawings are being completed for this 24,000 square foot building to be located immediately north of the swimming pool. The project also includes an NCAA regulation soccer field, an underground parking garage and an on-ground student parking lot. Parking on this side of the campus will increase by over 100 net spaces. The building will be named in honor of Sallie Suzanne Tiernan '44.

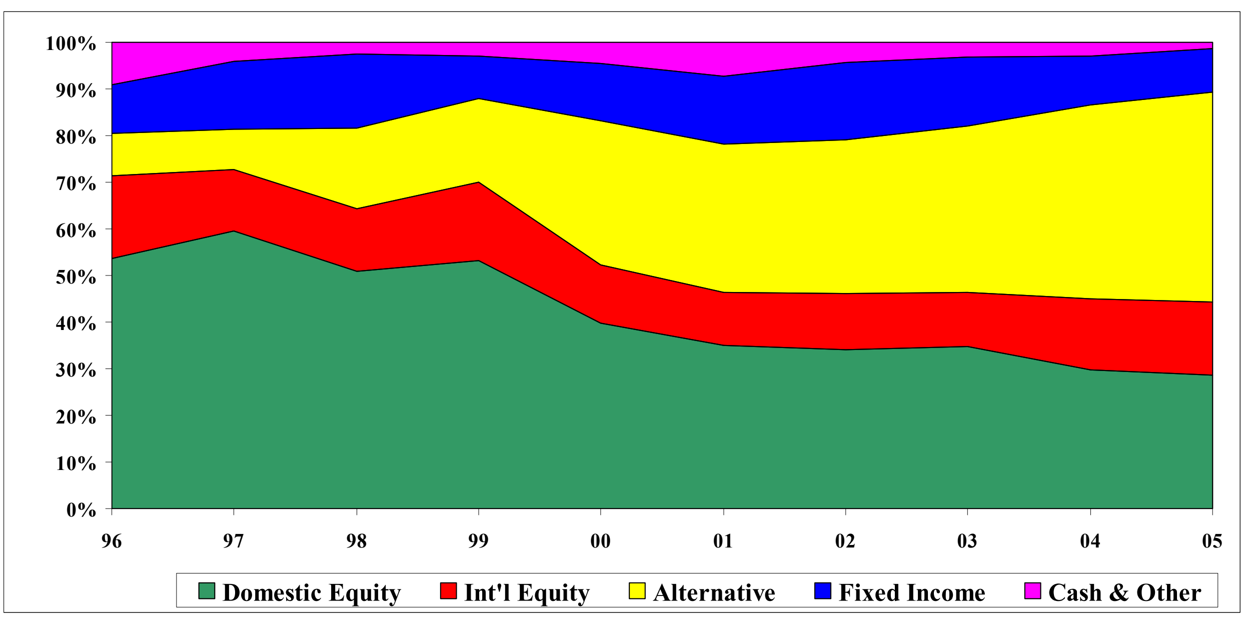
A new dance addition to the Performing Arts Center is also in the design stage. This facility of 15,000 square feet will have two dance studios, faculty offices and a workshop for costume building.

Finally, a rehabilitation of Denison Library is in the conceptual design stage to address deferred maintenance and improve handicap access.

ENDOWMENT

The fair value of the endowment increased $21 million, from $179 million to $200 million, closing in on the all time high year end valuation of $207 million in fiscal 1999/2000. The total return on the investment pool was 15.2%. The annualized return for five and ten years was 2.5% and 10.8%, respectively. The Investment Committee continued its work of diversifying the portfolio, and identifying and hiring managers with the capability to add incremental returns through active and skilled management. The Committee continues to seek out small niche private equity funds with a proven value added approach. Successful investing requires a disciplined approach to asset allocation, especially in the non-marketable areas so that as funds mature and liquidate, additional funds are in the commitment and investment stages of the cycle.

The table below presents the asset allocation of the investment pool over the past ten years. It shows that as the investment prospects in traditional domestic stocks and bonds have declined, the portfolio has diversified into more attractive, albeit less liquid investments.



SUMMARY

The finances of a small college are subject to the vicissitudes of the economy, the financial markets and the competitive environment in higher education. In spite of our not for profit status, we are obliged to compete for the best students, faculty, grants and gifts. With our tuition, room and board charges at over $40,000, students and parents have high expectations for the education being provided by Scripps.

With this in mind, President Bekavac and the Board of Trustees have launched a strategic planning process to take the College to the next level of excellence. Working with the consulting firm of Ulanov and Associates, the trustees, faculty, staff and students, are hard at work identifying "issue streams" and collecting data to inform the decision process. To date, the issue streams include: 1) academic excellence: teaching and scholarship, 2) demographics and diversity, 3) independence and consortium, 4) leadership: women's education and image, and 5) mission: education, core and size.

The platform to achieve these goals will be financial equilibrium, where revenues and expenses are in balance and with additional funds available to invest in the future; the future of the College, and the future of the students whose success can only improve the future of the country.

Respectfully submitted,

James H. Manifold
Vice President of Business Affairs/Treasurer

SCRIPPS COLLEGE

REPORT ON AUDITED FINANCIAL STATEMENTS

For The Years Ended June 30, 2005 and 2004

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
350 South Grand Avenue
Los Angeles CA 90071
Telephone (213) 356 6000
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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, 2005 and 2004, 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 audits 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, 2005

SCRIPPS COLLEGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2005 and 2004

	2005	2004
ASSETS		
Current assets		
Cash	$ 235,310	$ 867,737
Accounts receivable, net (Note 2)	1,821,178	863,731
Notes receivable, net (Note 2)	559,669	565,662
Contributions receivable (Note 3)	775,229	3,478,799
Prepaid expenses, deposits, and other	436,274	138,665
Investments (Note 4)	5,800,000	7,900,000
Assets whose use is limited (Note 4)	3,410,817	2,200,000
Total current assets	13,038,477	16,014,594
Non current assets		
Notes receivable, net (Note 2)	4,104,243	4,148,191
Contributions receivable, net (Note 3)	8,457,594	7,860,694
Investments (Note 4)	208,707,684	184,434,165
Investments held as a reserve for depreciation (Note 4)	6,787,256	6,616,291
Collections (Note 1)	16,057,841	15,996,840
Plant facilities		
Land and land improvements	5,049,347	5,049,347
Buildings	77,357,200	75,034,402
Equipment and furnishings	8,942,854	8,522,379
Property held for future use	1,274,368	1,274,368
Construction in progress	1,143,023	1,048,080
Accumulated depreciation	(29,164,677)	(26,483,378)
Net plant facilities	64,602,115	64,445,198
Total assets	$ 321,755,210	$ 299,515,973

	Endowment	Invested in plant and other	2005	2004
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued liabilities			$ 2,543,929	$ 2,269,199
Current portion of notes and bonds payable (Note 6)			418,000	410,000
Deposits and deferred revenue			659,688	503,080
Total current liabilities			3,621,617	3,182,279
Non current liabilities				
Life income and annuities payable (Note 5)			4,699,163	4,474,589
Payable to Claremont University Consortium			46,075	53,817
Liability for staff retirement plan			566,762	565,983
Notes and bonds payable (Note 6)			23,646,091	24,029,820
Government advances for student loans			1,711,224	1,722,785
Funds held in trust for others (Note 7)			58,696	161,950
Total liabilities			34,349,628	34,191,223
Net assets				
Unrestricted	$ 129,476,528	$ 57,797,956	187,274,484	167,862,264
Temporarily restricted	2,604,607	19,211,040	21,815,647	21,630,123
Permanently restricted	69,401,958	8,913,493	78,315,451	75,832,363
Total net assets	$ 201,483,093	$ 85,922,489	287,405,582	265,324,750
Total liabilities and net assets			$ 321,755,210	$ 299,515,973

The accompanying notes are an integral part of these statements.

SCRIPPS COLLEGE

STATEMENTS OF ACTIVITIES
For the years ended June 30, 2005 and 2004

	2005	2004
Unrestricted Net Assets		
Revenues and releases of net assets:		
Tuition, room and board	$ 30,693,824	$ 28,440,813
Less: financial aid	8,391,884	7,557,352
Net student revenues (Note 8)	22,301,940	20,883,461
Contributions to operations	2,792,020	3,044,624
Federal grants and contracts	368,481	414,129
Spending policy income	8,150,934	8,563,086
Other investment income, net	397,553	231,753
Other revenue	875,643	885,119
Release of temporarily restricted net assets:		
Operations	2,202,780	2,305,345
Annuity and life income	118,932	115,226
Total revenues and release of net assets	37,208,283	36,442,743
Expenses:		
Academic program	19,455,563	18,188,242
Co-curricular program	10,945,369	10,610,822
Marketing	5,310,695	4,807,810
Administrative and general	3,631,901	3,468,986
Total expenses	39,343,528	37,075,860
Operating deficit (Note 10)	(2,135,245)	(633,117)
Other changes in unrestricted net assets:		
Non-operating bequests and gifts in kind	67,435	94,977
Release of temporarily restricted net assets - plant	2,988,665	8,667,390
Redesignation of net assets	218,775	(107,643)
Net realized and unrealized gains on investments net of allocation to operations	18,284,901	15,917,382
Other comprehensive pension (expense) income	(29,707)	260,000
Transfer from (to) Claremont University Consortium	17,396	(349,515)
Change in unrestricted net assets	19,412,220	23,849,474
Unrestricted net assets, beginning of year	167,862,264	144,012,790
Unrestricted net assets, end of year	$ 187,274,484	$ 167,862,264

The accompanying notes are an integral part of these statements.

SCRIPPS COLLEGE

STATEMENTS OF ACTIVITIES, Continued
For the years ended June 30, 2005 and 2004

	2005	2004
Temporarily Restricted Net Assets		
Revenues:		
Contributions	$ 3,524,491	$ 4,024,283
Spending policy income	901,618	760,377
Other investment income, net	9,656	14,251
Other revenue	225,032	171,216
Total revenues	4,660,797	4,970,127
Other changes in temporarily restricted net assets:		
Actuarial adjustment of annuity and life income liabilities	1,287,166	548,855
Release of temporarily restricted net assets:		
Operations	(2,202,780)	(2,305,345)
Annuity and life income	(118,932)	(115,226)
Plant	(2,988,665)	(8,667,390)
Redesignation of net assets	(445,102)	16,241
Net gain (loss) on investments	1,915	(83,333)
Transfer to Claremont University Consortium	(8,875)	-
Change in temporarily restricted net assets	185,524	(5,636,071)
Temporarily restricted net assets, beginning of year	21,630,123	27,266,194
Temporarily restricted net assets, end of year	$ 21,815,647	$ 21,630,123
Permanently Restricted Net Assets		
Revenues:		
Contributions	$ 1,718,613	$ 4,463,039
Spending policy income	85,239	141,000
Other investment income, net	38,590	(8,690)
Other revenue	13,365	10,547
Total revenues	1,855,807	4,605,896
Other changes in permanently restricted net assets:		
Actuarial adjustment of annuity and life income liabilities	407,206	348,129
Redesignation of net assets	226,327	91,402
Net loss on investments	(6,252)	(7,965)
Change in permanently restricted net assets	2,483,088	5,037,462
Permanently restricted net assets, beginning of year	75,832,363	70,794,901
Permanently restricted net assets, end of year	$ 78,315,451	$ 75,832,363
Total change in net assets:		
Total net assets, beginning of year	$ 265,324,750	$ 242,073,885
Total year to date change in net assets	22,080,832	23,250,865
Total net assets, end of year	$ 287,405,582	$ 265,324,750

The accompanying notes are an integral part of these statements.

SCRIPPS COLLEGE

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Tuition, room and board, net of financial aid	$ 22,539,085	$ 20,937,554
Gifts, grants and contracts	3,368,079	3,497,653
Investment income	3,290,803	2,460,221
Other revenue	938,692	1,003,601
Payments for interest on debt	(1,330,178)	(1,390,569)
Payments to employees and suppliers	(35,180,250)	(34,795,858)
Net cash used in operating activities (Notes 10 and 11)	(6,373,769)	(8,287,398)
Cash flows from investing activities:		
Purchase of plant facilities	(2,838,217)	(1,578,616)
Proceeds from sale of investments	82,068,487	54,861,526
Purchase of investments	(80,948,068)	(53,550,011)
Loans made to students and faculty	(792,595)	(958,138)
Collection of student and faculty loans	827,019	878,914
Net cash used in investing activities	(1,683,374)	(346,325)
Cash flows from financing activities:		
Payments to life income beneficiaries	(558,337)	(541,431)
Investment income on life income investments	433,382	107,518
Principal payments on debt	(417,741)	(2,125,202)
Contributions restricted for loans	50	79,033
Contributions restricted for endowment	1,213,755	3,859,354
Contributions restricted for life income contracts	380,846	654,752
Contributions restricted for plant expenditures	5,749,173	6,512,286
Contributions for other restricted purposes	596,631	869,332
Change in advances for student loans	26,957	(134,759)
Net cash provided by financing activities	7,424,716	9,280,883
Net (decrease) increase in cash	(632,427)	647,160
Cash at beginning of year	867,737	220,577
Cash at end of year	$ 235,310	$ 867,737

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, 2005 and 2004

	2005	2004
Pooled investment return:		
Earned income	$ 2,824,432	$ 2,156,441
Change in realized and unrealized net appreciation of investments	24,440,539	23,053,752
Net investment return	27,264,971	25,210,193
Endowment returns distributed for operations	(8,150,934)	(8,563,086)
Endowment returns distributed for temporarily restricted net assets	(901,618)	(760,377)
Endowment returns reinvested for permanently restricted net assets	85,239	141,000
Net investment returns reinvested	18,297,658	16,027,730
Other changes in endowed equity:		
Contributions	1,441,467	4,253,312
Other, net		
Transfers to quasi endowment	979,922	591,481
Redesignation of net assets	427,530	123,438
Matured annuity and life income agreements	80,367	54,917
Total other changes in endowed equity	2,929,286	5,023,148
Net change in endowed equity	21,226,944	21,050,878
Endowed equity, beginning of year	180,256,149	159,205,271
Endowed equity, end of year	$ 201,483,093	$ 180,256,149
Endowed equity is composed of the following assets at June 30,		
Contributions receivable, net of discount (Note 3)	$ 1,555,867	$ 1,328,155
Investments (Note 4)	199,927,226	178,927,994
	$ 201,483,093	$ 180,256,149

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 815 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 and corresponding California provisions. 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 Statements 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 for 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. 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:

Venture capital investments are stated at fair value as of the most recent valuation date prior to year-end. 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 from alternative investments, on the Statement of Activities, for the years ended June 30, 2005 and 2004 is $18,429,045 and $15,993,268, respectively.

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 5.23% and 4.98% to the average market value of pooled investments for the years ended June 30, 2005 and 2004, respectively. 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, 2005 and 2004, these cumulative gains totaled approximately $79,345,000 and $76,183,000, 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, 2005 and 2004 the fair value amount of all the endowments without a donor waiver that were below their original cost basis totaled approximately $1,248,000 and $3,267,000 respectively. The fair value amount below original cost for June 30, 2005 and 2004 was approximately $76,000 and $226,000, 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). Depreciation expense is funded through operations and contributions. The cost and accumulated depreciation of assets sold or retired are removed from the accounts and the related gains or losses are included in the statements of activities.

During fiscal years ending June 30, 2005 and 2004 no equipment or property was acquired with federal funds or restricted assets where title may revert to another party, and there were no disposals of equipment or property purchased with federal funds.

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 4.6% to 7.5% and over estimated lives according to the 1994 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.

Reclassifications

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

2. Accounts and Notes Receivable:

Accounts and notes receivable at June 30, 2005 and 2004 are as follows:

	2005	2004
Student accounts	$ 184,674	$ 241,785
Federal and private grants and contracts	186,216	64,181
Other Claremont Colleges	90,097	126,990
Gifts	255,970	327,385
Due from broker	868,251	9,620
Summer conference revenue	211,330	-
Travel advances	29,646	72,075
Other	79,652	74,269
	1,905,836	916,305
Less allowance for doubtful accounts	(84,658)	(52,574)
Net accounts and notes receivable	$ 1,821,178	$ 863,731

Notes Receivable:

Notes receivable at June 30, 2005 and 2004 are as follows:

	2005	2004
Student notes	$ 4,698,569	$ 4,777,339
Other	158,911	114,500
	4,857,480	4,891,839
Less allowance for doubtful student notes	(193,568)	(177,986)
Total notes receivable, net	4,663,912	4,713,853
Less current portion	(559,669)	(565,662)
Non current notes receivable	$ 4,104,243	$ 4,148,191

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 at rates ranging from 1.7 to 5.7%.

Unconditional promises to give at June 30, 2005 and 2004 are expected to be realized in the following periods:

	2005	2004
Within one year	$ 809,665	$ 3,597,728
Between one year and five years	1,231,228	1,623,886
More than five years	7,459,664	6,462,711
	9,500,557	11,684,325
Less discount	(267,734)	(344,832)
	9,232,823	11,339,493
Less current portion, net of discount	(775,229)	(3,478,799)
Contributions receivable, net	$ 8,457,594	$ 7,860,694

Contributions receivable at June 30, 2005 and 2004 are intended for the following uses:

	2005	2004
Endowment	$ 1,555,867	$ 1,328,155
Non-trustee charitable remainder unitrusts	6,999,664	6,247,712
Other	677,292	3,763,626
Total	$ 9,232,823	$ 11,339,493

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, 2005 and 2004:

	2005	2004
Unit market value at end of year	$ 436.58	$ 397.26
Units owned:		
Unrestricted	51,588	48,170
Temporarily restricted	22,086	22,002
Permanently restricted	400,243	395,802
	473,917	465,974

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, 2005 and 2004 the California Annuitants had 9,276 and 9,159 units outstanding with a unit market value of $436.58 and $397.26, respectively.

Investment income related to College investments, net of management and custody fees of approximately $685,424 and $528,523 for the years ended June 30, 2005 and 2004, respectively, is as follows:

	2005	2004
Pooled investments income	$ 3,133,744	$ 2,514,194
Pooled investments gains appropriated	6,292,788	7,241,555
Total spending policy income and gains	9,426,532	9,755,749
Less amounts allocated to annuity and life income contracts and agreements	(288,741)	(291,286)
Total spending policy income	9,137,791	9,464,463
Other investment income	592,543	331,055
Less amounts allocated to annuity and life income contracts and agreements	(146,744)	(93,741)
Total other investment income	445,799	237,314
Realized gain/(loss) on investments	9,450,933	4,027,194
Unrealized gains on investments	15,122,419	19,040,445
Pooled investment gains appropriated	(6,292,788)	(7,241,555)
Net realized and unrealized losses on investments net of allocation to operations	18,280,564	15,826,084
Total investment return	$ 27,864,154	$ 25,527,861

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. The following schedule summarizes investments at June 30:

Investment by asset type:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Cash equivalents	$ 11,493,426	$ 11,493,862	$ 9,311,677	$ 9,311,677
Short term investments	2,327,682	2,327,682 *	2,257,652	2,257,652 *
Domestic equities	50,967,980	57,780,467	48,898,633	54,577,777
International equities	25,275,524	36,687,611	28,284,705	33,356,364
Private equity	30,580,083	35,881,164	37,737,380	32,345,909
Domestic fixed income	21,514,869	21,347,804	21,953,159	21,741,749
International fixed income	1,984,000	2,820,673	1,984,000	2,448,289
Real properties	16,672	646,498	50,794	290,620
Long/short hedge funds	19,738,342	16,254,747	6,572,907	12,214,000
Absolute return hedge funds	16,752,000	34,755,949	13,752,000	25,677,123
Assets whose use is limited	3,410,817	3,410,817 *	5,598,281	5,598,281 *
Investments held in trust by others	675,652	674,657	657,275	657,275
Other assets	623,826	623,826 *	673,740	673,740 *
Total by asset type	$185,360,873	$224,705,757	$177,732,203	$201,150,456

Investment by program:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Investment pool	$168,153,394	$206,899,893	$161,635,367	$185,113,599
Separate investments	17,207,479	17,805,864	16,096,836	16,036,857
Total by program	$185,360,873	$224,705,757	$177,732,203	$201,150,456

* = Cost

4. Investments, Continued:

Investments by category:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Endowment and funds functioning as endowment	$162,356,479	$199,927,226	$156,349,318	$178,927,994
Annuity and life income funds	9,745,392	11,325,280	9,549,325	10,422,064
Reserve for depreciation	6,553,145	6,787,256	6,553,145	6,616,291
Other	6,705,857	6,665,995	5,280,415	5,184,107
Total by category	$185,360,873	$224,705,757	$177,732,203	$201,150,456

5. Life Income and Annuities Payable:

Life income and annuities payable of $4,699,163 and $4,474,589 at June 30, 2005 and 2004, respectively, represent actuarially determined liabilities for contractual obligations under gift annuities, unitrusts, and pooled income funds.

6. Note and Bonds Payable:

At June 30, 2005 and 2004, note and bonds payable were comprised of the following:

	2005	2004
Bond - College and University Facility Loan Trust One	$ 28,000	$ 73,000
Bonds - California Educational Facilities Authority ("CEFA") Series 1997C	2,405,000	2,565,000
Bonds - CEFA Series 1999	10,050,000	10,255,000
Bonds - CEFA Series 2001	12,250,000	12,250,000
	24,733,000	25,143,000
Less unamortized discount and issuance costs	(668,909)	(703,180)
Less current portion	(418,000)	(410,000)
	$ 23,646,091	$ 24,029,820

6. Note and Bonds Payable, Continued:

The bond payable to the College and University Facility Loan Trust One is due in October 2005. Interest is payable annually at a rate of 3%. Collateral consists of investments consisting of securities of $115,775 held by a trustee. The bonds are subject to redemption at price equal to the principal amount redeemed.

The CEFA Series 1997C bonds are due in 2015. Annual installments range from $204,400 in March 2006 to $327,400 in March 2015. Interest is payable semiannually at rates ranging from 5.0% to 5.5%. Bonds maturing after March 1, 2007 with principal balances totaling $2,197,000 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 $175,000 in March 2006 to $320,000 in March 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 $215,000 in February 2006 to $685,000 in February 2030. Interest is payable semiannually at rates ranging from 4.2% 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 August 2006 to $1,675,000 in August 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.

Interest expense was $1,357,004 and $1,383,654 for the years ended June 30, 2005 and 2004, respectively and includes includes amortized discount (premium) and cost of issuance of $34,271.

At June 30, 2005, the bond maturities were as follows:

Fiscal Year Ending June 30,	Principal Amount
2006	$ 418,000
2007	435,000
2008	460,000
2009	485,000
2010	515,000
Thereafter	22,420,000
	$ 24,733,000

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, 2005 or 2004.

The estimated fair value of the College's bonds payable was approximately $25,810,000 and $25,021,000 at June 30, 2005 and 2004, 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 $58,696 and $134,499 at June 30, 2005 and 2004, respectively, 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. At June 30, 2004, the College also held a fifty percent charitable remainder interest of $27,451 for a third party. In 2005 the trust matured and the fifty percent interest was transferred to the third party remainder beneficiary.

8. Net Student Revenues:

Student revenues for the years ended June 30, 2005 and 2004 consist of the following:

	2005	2004
Tuition and fees	$ 24,455,485	$ 22,390,180
Room and board	6,238,339	6,050,633
Gross student revenues	30,693,824	28,440,813
Less:		
Sponsored student aid	(2,275,653)	(2,225,562)
Unsponsored student aid	(6,116,231)	(5,331,790)
Net student revenues	$ 22,301,940	$ 20,883,461

"Sponsored" student aid consists of funds provided by external entities, whereas "unsponsored" aid consists of funds provided by the College.

9. Fund Raising Expense:

Included in Marketing Expense in the Statements of Financial Activities are approximately $2,266,000 and $2,115,000 of fund raising expenses for the years ended June 30, 2005 and 2004, 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 $6,293,000 and $7,242,000 for the years ended June 30, 2005 and 2004, 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 deficits on the Statements of Activities for the years ended June 30, 2005 and 2004 are as follows:

	2005	2004
Net cash used in operations	$ (6,373,769)	$ (8,287,398)
Depreciation expense	(2,681,299)	(2,562,487)
Pooled investment gains appropriated	6,292,788	7,241,555
Temporarily and permanently restricted spending policy income	(986,857)	(901,377)
Temporarily and permanently restricted other investment income, net	(48,246)	(5,561)
Temporarily and permanently restricted other income	(238,397)	(181,763)
Release of temporarily restricted net assets to operations	2,321,712	2,420,571
Transfer (from) to Claremont University Consortium	(8,521)	349,515
Expensed gifts in kind	(6,435)	(1,277)
Decrease in unrestricted receivables, prepaid expenses, deposits and other	(35,513)	(264,263)
(Increase) decrease in accounts payable and other accrued liabilities	(214,100)	1,513,236
(Increase) decrease in deposits and deferred revenue	(156,608)	46,132
Operating deficit	$ (2,135,245)	$ (633,117)

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, 2005 and 2004 as follows:

	2005	2004
Change in net assets	$ 22,080,832	$ 23,250,865
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	2,681,299	2,562,487
Gifts in kind	(61,000)	(93,700)
Realized gains on sale of investments	(9,450,933)	(4,027,194)
Unrealized gains on investments	(15,122,419)	(19,040,445)
Amortization on bond discount and cost of issuance	34,272	34,272
Comprehensive pension (income) expense	29,707	(260,000)
Adjustment of actuarial liability for life income agreements	(942,417)	(498,711)
(Increase) decrease in accounts and notes receivable	(88,902)	75,713
Decrease in contributions receivable	2,106,670	2,872,099
(Increase) decrease in prepaid expenses and deposits	(139,068)	16,054
(Decrease) increase in accounts payable and other accrued liabilities	208,757	(1,600,014)
Decrease in deposits and deferred revenue	156,608	(46,132)
Defined benefit plan contributions (over)/under expense	(28,928)	52,506
Contributions for long-term investments	(7,838,247)	(11,585,198)
Net cash used in operating activities	$ (6,373,769)	$ (8,287,398)

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, 2005 and 2004 totaled approximately $1,114,000 and $1,072,000, 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, 2005 and 2004 was approximately $207,000 and $288,000, respectively. The Plan was curtailed in the current year subsequent to the Plan's measurement date and plan participants were moved to the defined contribution retirement plan. The impact of the curtailment freezes the vested benefit obligation as of June 30, 2005. Additional information on the Plan can be obtained from the 2004-2005 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, 2005 and 2004 totaled approximately $2,848,000 and $2,674,000, respectively.

14. Commitments and Contingencies:

Contracts

The College has made investment commitments to twenty-two limited partnerships totaling $106,900,000 At June 30, 2005 the College has contributed capital of $57,815,000 and has a remaining outstanding commitment of $49,085,000.

The College has remaining commitments on contracts to complete the construction drawings of a recreational athletic facility totaling approximately $418,000 at June 30, 2005.

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.

14. Commitments and Contingencies, continued:

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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