SCRIPPS
THE WOMEN'S COLLEGE • CLAREMONT

Financial Report 2005–2006

THE PARAMOUNT
OBLIGATION OF A COLLEGE
IS TO DEVELOP IN ITS STUDENTS
THE ABILITY TO THINK CLEARLY
AND INDEPENDENTLY,
AND THE ABILITY
TO LIVE CONFIDENTLY,
COURAGEOUSLY, AND
HOPEFULLY.

ELLEN BROWNING SCRIPPS

Cover:
Students in Margaret Fowler Garden, Scripps College
Photo by Dana A.S. Rakoczy '90

SCRIPPS COLLEGE
ANNUAL FINANCIAL REPORT

2006 and 2005

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SCRIPPS
THE WOMEN'S COLLEGE
• CLAREMONT •

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CLAREMONT, CALIFORNIA
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JAMES H. MANIFOLD
Vice President of Business Affairs
Treasurer

October 6, 2006

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

Fiscal 2005/2006 was a record breaking year for the College in many respects-- the largest student body, the most assets, the highest revenue, and the biggest total endowment. This letter will review these and other highlights for the year by focusing on the financial statements. They are discussed in the order of presentation in the audited report that follows this letter. This year we welcomed a new firm, Moss Adams LLP, to audit the College's financial statements and look forward to their knowledge and expertise. We are grateful to PricewaterhouseCoopers LLP for their many years of service to the College.

STATEMENT OF FINANCIAL POSITION

This statement shows the assets, liabilities, and net assets of the College on the last day of the fiscal year, June 30, 2006. Total assets increased 9% to $352 million. Investments comprise the largest single category, 73% of the total assets. Footnote #4 of the financial statements provides an analysis of these investments. On the liabilities side of the ledger, notes and bonds payable of $24 million account for 68% of the $34 million total.

The net assets of $317 million are displayed in two ways: by the type of equity and by restriction. The endowment is the largest piece, at $230 million which accounts for 72% of the net assets. The balance of the assets consists of the physical plant (equipment, buildings and grounds), the art collection and other net assets.

The net assets are also broken out by restriction. There are three possibilities: unrestricted, temporarily restricted and permanently restricted. Unrestricted net assets comprise 68% of the total. There is no restriction on the use of these net assets. Temporarily restricted net assets have a donor imposed restriction as to either use or the passage of time. The restriction may be for gifts directed to the construction of a certain building or landscape project. Time restrictions are often related to the planned giving program whereby the College has entered into an unrestricted annuity or trust agreement with a donor. When the beneficiary(ies) passes on, the amount associated with their funds is released to unrestricted net assets. Permanently restricted net assets have a donor restriction that requires the College to hold the gift corpus in perpetuity; however, the income derived from the assets may be spent. Typically, such gifts are to endowment or loan funds.

STATEMENT OF ACTIVITIES

This statement reflects the revenues, expenses and other changes to net assets for the entire fiscal year. It is divided into three sections which parallel the net assets section of the Statement of Financial Position: unrestricted, temporarily restricted and permanently restricted.

The unrestricted section (page 9) is the most detailed and shows the operating revenues and expenses, as well as other unrestricted changes. Operating revenue of $41 million was the highest on record, an increase of 11% over last year. Operating expenses increased 5% to $41 million. This provided a modest operating surplus of almost $150,000 – a welcome outcome compared to the $2 million operating deficit in the prior year. Over enrollment of 35 students and the release of annuity and life income funds accounted for most of this favorable change.

The rest of the section presents other non-operating changes to unrestricted net assets. This is where net realized and unrealized gains and losses on investments are presented-- a $27 million net gain for this year. Non-operating gifts are also recorded in this section; gifts in kind are typically gifts to the College art collection. During the fiscal, year the College received collections of rare books for the Denison Library and photographs for the Williamson Gallery valued at $377,000, as well as other gifts of books and art works. This line is also used for extraordinary bequests of $1 million or more because they are normally unplanned and would distort the operations figure in this statement.

One new item in this section is the cumulative effect of a change in accounting principle. The $483,000 decrease represents the implementation of FASB Interpretation Number 47 related to the eventual disposition of hazardous materials. This is a new accounting standard that required the College to analyze its physical plant and estimate the cost of disposing of asbestos containing material, lead paint and the like should a building be demolished or remodeled. The standard also required us to record this liability on the Statement of Financial Position as an asset retirement obligation and increase the cost basis of the building. Using our existing estimated useful lives of buildings, we will depreciate the increased cost basis and adjust the asset retirement obligation going forward on an annual basis.

Another non-operating change is associated with releases of temporarily restricted net assets for plant construction projects once they are completed. The $333,000 for this item relates to pledge payments on the Malott Commons (2000) and the Performing Arts Center (2003) and other gifts to building projects that were received during the year.

The next section shows temporarily restricted revenue and other changes. Contributions with temporary restrictions are shown here. Also, certain spending policy income associated with non-budgetary activities is credited to these accounts and held until the restriction is met. Example of these items would include endowments that fund art restoration and acquisition, book collections and other narrowly defined spending activities.

Other changes include actuarial adjustments for annuities where, due to the passage of time, the liability for annuities has decreased. The total liability of almost $5 million is shown on the Statement of Financial Position. The largest item in this section is the release of temporarily restricted net assets for: operations, annuity and life income agreements or plant.

The third section of the Statement of Activities shows revenue and other changes for permanently restricted net assets. Contributions to endowment and permanently restricted annuities and trusts are the largest item for this year at $1.5 million. Spending policy income revenue relates to endowments that are created with the understanding that the associated income will be plowed back to the corpus for a certain period of time or until the endowment reaches a certain dollar goal.

STATEMENT OF CASH FLOWS

This statement moves the focus of the financial statements from accrual accounting to cash. It is also divided into three sections. The first section looks at cash flow from operations. The net cash used in operations of $3.7 million ignores spending policy income which supports operations but is not interest and dividends but rather appropriated realized gains. Footnote #12 reconciles the cash used in operations to the operating surplus on the Statement of Activities. It shows another $6 million of pooled investment gains appropriated.

The next section shows cash flows from investing activities and records plant construction projects, purchase and sales of investments and loan fund activity.

The third section shows the cash flow from financing activities. It is here that non operating contributions are shown. Principal payments on debt and life income transaction are also displayed here.

STATEMENT OF CHANGES IN ENDOWED EQUITY

Because the endowment is such a huge part of the financial well being of the College, this statement shows the changes during the year. The endowment grew 14 % to an all time high of $230 million. Pooled investment returns of $35 million included $2 million of earned income with the balance in realized and unrealized gains. Footnote #4 shows the composition of the investment pool. Because the College invests for total return, only a small percentage (about 10%) is invested in traditional fixed income securities that produce interest income. The vast majority of the pool is invested in a diversified mix of domestic and international equities as well as alternative investments such as private equity and hedge funds.

The next section shows the returns that were distributed based upon our endowment spending policy. The College takes a 12 quarter trailing average market value and multiples this by a 5% spending rate. This is the amount that is distributed to operations and to other restricted purposes. Over $8 million was distributed in 2006.

Other changes to endowed equity could include contributions, transfers by Board resolution to quasi endowment and maturities of annuity and life income agreements restricted to endowment.

Because the College accounts for contributions receivable (pledges), the bottom of this statement shows that over $1 million of the total endowment is represented by unconditional promises by donors to give endowment gifts.

The table below shows some key statistics for the endowment, starting with fiscal 1999-2000, the previous "high water" mark for total endowment. After the 2001 market decline it has been a long road back to over $200 million.

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
TOTAL ENDOWMENT ($000)	$ 206,994	$ 179,321	$ 159,275	$ 158,271	$ 178,928	$ 199,927	$ 228,330
ENDOWMENT PER STUDENT	$ 271,000	$ 231,000	$ 203,000	$ 198,000	$ 222,000	$ 245,000	$ 261,000
CONTRIBUTIONS TO ENDOWMENT ($000)	$ 4,411	$ 1,799	$ 463	$ 226	$ 4,253	$ 1,441	$ 1,081
ENDOWMENT SPENDING RATE (*12 QTR AVERAGE*)	5.30%	5.25%	5.20%	5.20%	4.98%	5.23%	5.00%
ENDOWMENT SPENDING RATE (*NACUBO METHOD*)	4.19%	3.95%	5.24%	6.20%	5.92%	5.07%	4.37%
NACUBO AVERAGE (ENDOWMENTS $100-$500 MILLION)	*4.40%*	*4.70%*	*5.00%*	*5.10%*	*5.00%*	*4.70%*	*n/a*
ENDOWMENT SUPPORT TO OPERATIONS ($000)	$ 6,484	$ 7,462	$ 8,529	$ 9,184	$ 8,563	$ 8,151	$ 7,769
TOTAL RETURN OF INVESTMENT POOL	24.3%	-10.6%	-7.7%	2.5%	16.1%	15.2%	17.7%
NACUBO AVERAGE (ENDOWMENTS $100-$500 MILLION)	*12.0%*	*-3.4%*	*-6.1%*	*2.7%*	*16.0%*	*9.6%*	*n/a*

SUMMARY

Each of the four financial statements discussed has a specific purpose for communicating financial information. Because they are produced by using the same books of account, there are many inter connections between the financial statements. The table below shows some of these key elements.

SCRIPPS COLLEGE
BASIC FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION (ONE DAY)	STATEMENT OF ACTIVITIES (ONE YEAR)	STATEMENT OF CASH FLOWS (ONE YEAR)	STATEMENT OF CHANGES IN ENDOWED EQUITY (ONE YEAR)
ASSETS	UNRESTRICTED	OPERATING ACTIVITIES	INFLOWS
CASH	OPERATING REVENUES	OPERATING REVENUES	INVESTMENT INCOME
ACCOUNTS RECEIVABLE	SPENDING POLICY INCOME	AND EXPENSES	GAINS & LOSSES
INVESTMENTS	OPERATING EXPENSES		GIFTS
PROPERTY, PLANT & EQUIPMENT	RELEASES & LIFE INCOME & OTHER	INVESTING ACTIVITIES	TRANSFERS IN
	TEMP RESTRICTED NET ASSETS	PLANT	ANNUITY & LIFE INCOME
TOTAL ASSETS	TO OPERATIONS	INVESTMENTS	MATURITIES
	GIFTS IN KIND	LOANS	BOARD RESOLUTIONS
LIABILITIES	ACTUARIAL ADJUSTMENTS		
ACCOUNTS PAYABLE	RELEASES OF TEMP RESTRICTED	FINANCING ACTIVITIES	OUTFLOWS
DEFERRED REVENUE	NET ASSETS TO PLANT	DEBT	SPENDING POLICY INCOME
NOTES & BONDS PAYABLE		GIFTS TO ENDOWMENT	
	TRANSFERS TO CUC	PLANT	
NET ASSETS		LOAN FUNDS	
UNRESTRICTED	TEMPORARILY RESTRICTED	LIFE INCOME AGREEMENTS	
TEMPORARILY RESTRICTED	GIFTS IN KIND		
PERMANENTLY RESTRICTED	SPENDING POLICY INCOME		
	OTHER		
TOTAL LIABILITIES AND NET ASSETS	RELEASES OF TEMP RESTRICTED		
	NET ASSETS TO OPERATIONS		
	AND PLANT		
	PERMANENTLY RESTRICTED		
	GIFTS		
	SPENDING POLICY INCOME		
	ACTUARIAL ADJUSTMENTS		

In addition to the favorable story embedded in these financial statements, there is much more to look forward to on the Scripps horizon. We are now in month 22 of a new strategic planning process. Some of the critical issues being addressed include: academic excellence, diversity, globalization, sustainability, size of the College, faculty size and workload, and financial equilibrium. It is clear to all who have participated in the process that we are at a critical juncture in the history of the College and much depends upon the decisions and commitments made in this plan for the future of Scripps.

Respectfully submitted,

James H. Manifold

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

To the Board of Trustees
Scripps College

We have audited the accompanying statement of financial position of Scripps College as of June 30, 2006, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of Scripps College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The June 30, 2005 financial statements and additional information were audited by other auditors, whose report dated September 30, 2005, expressed an unqualified opinion on those financial statements.

We conducted our audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scripps College as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule included on page 12 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 procedures applied in the audit 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.

Moss Adams LLP

Los Angeles, California
October 6, 2006

SCRIPPS COLLEGE
STATEMENTS OF FINANCIAL POSITION

June 30, 2006 and 2005

	2006	2005
ASSETS		
Current assets		
Cash	$ 177,336	$ 235,310
Accounts receivable, net (Note 2)	482,396	1,565,208
Notes receivable, net (Note 2)	561,216	559,669
Contributions receivable (Note 3)	1,051,003	1,065,635
Prepaid expenses, deposits, and other	473,653	436,274
Investments (Note 4)	8,403,401	3,730,430
Assets whose use is limited (Note 4)	3,410,817	3,410,817
Total current assets	14,559,822	11,003,343
Non current assets		
Notes receivable, net (Note 2)	4,115,580	4,104,243
Contributions receivable, net (Note 3)	7,833,999	8,423,158
Investments (Note 4)	244,316,901	216,196,005
Investments held as a reserve for depreciation (Note 4)	1,613,257	1,368,505
Collections (Note 1)	16,501,166	16,057,841
Plant facilities		
Land and land improvements	5,172,382	5,049,347
Buildings	77,527,263	77,357,200
Equipment and furnishings	9,286,203	8,942,854
Property held for future use	1,274,368	1,274,368
Construction in progress	1,724,879	1,143,023
Accumulated depreciation	(31,903,338)	(29,164,677)
Net plant facilities	63,081,757	64,602,115
Total assets	$ 352,022,482	$ 321,755,210

The accompanying notes are an integral part of these statements.

June 30, 2006 and 2005

	Endowment	Invested in plant and other	2006	2005
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued liabilities			$ 2,438,935	$ 2,543,929
Current portion of notes and bonds payable (Note 6)			435,000	418,000
Deposits and deferred revenue			1,051,605	659,688
Total current liabilities			3,925,540	3,621,617
Non current liabilities				
Life income and annuities payable (Note 5)			4,989,261	4,699,163
Payable to Claremont University Consortium			37,529	46,075
Liability for staff retirement plan			243,471	566,762
Notes and bonds payable (Note 6)			23,245,363	23,646,091
Government advances for student loans			1,685,221	1,711,224
Funds held in trust for others (Note 7)			58,696	58,696
Asset retirement obligation			602,263	-
Total liabilities			34,787,344	34,349,628
Net assets				
Unrestricted	$ 155,873,007	$ 58,676,027	214,549,034	187,274,484
Temporarily restricted	2,995,345	19,076,029	22,071,374	21,815,647
Permanently restricted	70,676,726	9,938,004	80,614,730	78,315,451
Total net assets	$ 229,545,078	$ 87,690,060	317,235,138	287,405,582
Total liabilities and net assets			$ 352,022,482	$ 321,755,210

The accompanying notes are an integral part of these statements.

SCRIPPS COLLEGE
STATEMENTS OF ACTIVITIES

For the years ended June 30, 2006 and 2005

	2006	2005
Unrestricted Net Assets		
Revenues and releases of net assets:		
Tuition, room and board	$ 35,521,964	$ 30,693,824
Less: financial aid	9,169,822	8,391,884
Net student revenues (Note 9)	26,352,142	22,301,940
Contributions to operations	2,503,990	2,792,020
Federal gifts and contracts	349,159	368,481
Spending policy income	7,768,695	8,150,934
Other investment income, net	918,551	397,553
Other revenue	717,247	875,643
Gifts and endowment payout for non-budgetary items	657,224	641,718
Release of temporarily restricted net assets:		
Operations	1,178,808	1,561,062
Annuity and life income	811,436	118,932
Total revenues and release of net assets	41,257,252	37,208,283
Expenses:		
Academic program	20,367,926	19,455,563
Co-curricular program	11,383,270	10,945,369
Marketing	5,484,170	5,310,695
Administrative and general	3,871,900	3,631,901
Total expenses	41,107,266	39,343,528
Operating surplus (deficit) (Note 12)	149,986	(2,135,245)
Other changes in unrestricted net assets:		
Non-operating bequests and gifts in kind	661,531	67,435
Release of temporarily restricted net assets - plant	332,385	2,988,665
Redesignation of net assets	(208,600)	218,775
Net realized and unrealized gains on investments net of allocation to operations	26,560,807	18,284,901
Other comprehensive pension income (expense)	334,050	(29,707)
Transfer (to) from Claremont University Consortium	(72,737)	17,396
Total other changes in unrestricted net assets	27,607,436	21,547,465
Cumulative effect of change in accounting principle	(482,872)	-
Change in unrestricted net assets	27,274,550	19,412,220
Unrestricted net assets, beginning of year	187,274,484	167,862,264
Unrestricted net assets, end of year	$ 214,549,034	$ 187,274,484

The accompanying notes are an integral part of these statements.

SCRIPPS COLLEGE
STATEMENTS OF ACTIVITIES

For the years ended June 30, 2006 and 2005

	2006	2005
Temporarily Restricted Net Assets		
Revenues:		
Contributions	$ 1,283,177	$ 3,303,409
Spending policy income	528,692	480,982
Other investment income, net	13,015	9,656
Total revenues	1,824,884	3,794,047
Other changes in temporarily restricted net assets:		
Actuarial adjustment of annuity and life income liabilities	408,369	1,287,166
Other	216,395	225,032
Release of temporarily restricted net assets:		
Operations	(1,178,808)	(1,561,062)
Annuity and life income	(811,436)	(118,932)
Plant	(332,385)	(2,988,665)
Redesignation of net assets	82,880	(445,102)
Net gain on investments	45,828	1,915
Transfer (to) Claremont University Consortium	-	(8,875)
Change in temporarily restricted net assets	255,727	185,524
Temporarily restricted net assets, beginning of year	21,815,647	21,630,123
Temporarily restricted net assets, end of year	$ 22,071,374	$ 21,815,647
Permanently Restricted Net Assets		
Revenues:		
Contributions	$ 1,467,588	$ 1,718,613
Spending policy income	19,217	85,239
Other investment income, net	81,644	38,590
Other revenue	5,533	13,365
Total revenues	1,573,982	1,855,807
Other changes in permanently restricted net assets:		
Actuarial adjustment of annuity and life income liabilities	606,590	407,206
Redesignation of net assets	125,720	226,327
Net (loss) on investments	(7,013)	(6,252)
Change in permanently restricted net assets	2,299,279	2,483,088
Permanently restricted net assets, beginning of year	78,315,451	75,832,363
Permanently restricted net assets, end of year	$ 80,614,730	$ 78,315,451
Total change in net assets:		
Total net assets, beginning of year	$ 287,405,582	$ 265,324,750
Total year to date change in net assets	29,829,556	22,080,832
Total net assets, end of year	$ 317,235,138	$ 287,405,582

The accompanying notes are an integral part of these statements.

SCRIPPS COLLEGE
STATEMENTS OF CASH FLOWS

For the years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Tuition, room and board, net of financial aid	$ 26,758,013	$ 22,539,085
Gifts, grants and contracts	3,305,727	3,368,079
Investment income	3,651,814	3,290,803
Other revenue	1,189,839	938,692
Payments for interest on debt	(1,308,982)	(1,330,178)
Payments to employees and suppliers	(37,311,974)	(35,180,250)
Net cash (used in) operating activities (Notes 12 and 13)	(3,715,563)	(6,373,769)
Cash flows from investing activities:		
Purchase of plant facilities	(1,048,240)	(2,838,217)
Proceeds from sale of investments	77,008,132	82,068,487
Purchase of investments	(75,249,182)	(80,948,068)
Loans made to students and faculty	(385,328)	(792,595)
Collection of student and faculty loans	352,203	827,019
Net cash provided by (used in) investing activities	677,585	(1,683,374)
Cash flows from financing activities:		
Payments to life income beneficiaries	(624,453)	(558,337)
Investment income on life income investments	400,855	433,382
Principal payments on debt	(418,000)	(417,741)
Contributions restricted for loans	50	50
Contributions restricted for endowment	1,080,663	1,213,755
Contributions restricted for life income contracts	1,045,687	380,846
Contributions restricted for plant expenditures	615,446	5,749,173
Contributions for other restricted purposes	905,759	596,631
Change in advances for student loans	(26,003)	26,957
Net cash provided by financing activities	2,980,004	7,424,716
Net (decrease) in cash	(57,974)	(632,427)
Cash at beginning of year	235,310	867,737
Cash at end of year	$ 177,336	$ 235,310

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, 2006 and 2005

	2006	2005
Pooled investment return:		
Earned income	$ 2,232,775	$ 2,403,796
Change in realized and unrealized net appreciation of investments	32,440,136	24,440,539
Net investment return	34,672,911	26,844,335
Endowment returns distributed for operations	(7,768,695)	(8,150,934)
Endowment returns distributed for temporarily restricted net assets	(528,692)	(480,982)
Endowment returns reinvested for permanently restricted net assets	19,217	85,239
Net investment returns reinvested	26,394,741	18,297,658
Other changes in endowed equity:		
Contributions	1,080,663	1,441,467
Other, net		
Transfers to quasi endowment	215,414	979,922
Redesignation of net assets	171,902	427,530
Matured annuity and life income agreements	199,265	80,367
Total other changes in endowed equity	1,667,244	2,929,286
Net change in endowed equity	28,061,985	21,226,944
Endowed equity, beginning of year	201,483,093	180,256,149
Endowed equity, end of year	$ 229,545,078	$ 201,483,093
Endowed equity is composed of the following assets at June 30,		
Contributions receivable, net of discount (Note 3)	$ 1,215,257	$ 1,555,867
Investments (Note 4)	228,329,821	199,927,226
	$ 229,545,078	$ 201,483,093

The accompanying notes are an integral part of these statements.

June 30, 2006 and 2005

NOTE 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 864 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.

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. Collectibility of student accounts and notes receivable is reviewed both individually and in the aggregate. Allowances have been established based on experience, and balances deemed uncollectible are written off through a charge to bad debt expense or the provision for doubtful accounts and a credit to accounts receivable.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Revenue and Expense Recognition, Contiued:

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.

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.

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's 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.

June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

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.

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. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Net realized and unrealized gains from alternative investments, on the Statements of Activities, for the years ended June 30, 2006 and 2005 is $31,110,372 and $18,429,045, respectively.

Due to the risks associated with certain investments and the level of uncertainty related to changes in the value of the investment securities, it is at least reasonably possible that changes in risks in the near term could materially effect account balances and the amounts reported in the Statements of Financial Position and Statements of Activities.

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 5.00% and 5.23% to the average market value of pooled investments for the years ended June 30, 2006 and 2005, 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, 2006 and 2005, these cumulative gains totaled approximately $83,647,000 and $79,345,000, respectively.

Underwater Endowments:

Previous 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Underwater Endowments, Continued:

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, 2006 and 2005, the fair value amount of all the endowments without a donor waiver that were below their original cost basis totaled approximately $400,000 and $1,248,000, respectively. The fair value amount below original cost for June 30, 2006 and 2005 was approximately $2,000 and $76,000, respectively.

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. Plant purchases with a useful life of five years or more and a cost equal to or greater than $50,000 for land improvements, $100,000 for large buildings (10,000 square feet), $50,000 for other buildings and $25,000 for equipment are capitalized. Depreciation is computed on a straight-line basis over the estimated useful lives the assets, generally, 25 years for permanent improvements, 40 years for buildings, 4 years for computing equipment and 7 years for other equipment. 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. Asset retirement obligations are recorded based on estimated settlement dates and methods.

During fiscal years ending June 30, 2006 and 2005, 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, the asset is recorded at fair value 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.

June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Annuity and Life Income Contracts and Agreements, Continued:

On December 2, 1998, the Insurance Commission Chief Counsel granted the College permission to invest its reserves for California annuities pursuant to Insurance Code Section 11521.2(b). This approval is subject to the following conditions: (1) maintain a Nationally Recognized Statistical Rating Organization ("NRSRO") bond rating off "A" or better and (2) maintain an endowment to gift annuity reserve ratio of at least 10:1.

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 2005 amounts have been reclassified to conform to 2006 presentation.

Change in Accounting Principle:

The College implemented Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations", an interpretation of FASB Statement No. 143 "Accounting for Asset Retirement Obligations" (FIN 47) as of June 30, 2006. FIN 47 clarified that conditional asset obligations meet the definition of liabilities and should be recognized when incurred if their fair values can be reasonable estimated. Upon implementation of FIN 47, the College recorded a cumulative effect of change in accounting principle of $482,872.

The pro forma effect of retroactively applying FIN 47 (as if it had been applied during all years reported) is a decrease to the change in unrestricted net assets the year ending June 30, 2005 of $29,464 (this is the effect on the change in unrestricted net assets for 2005).

June 30, 2006 and 2005

NOTE 2 - ACCOUNTS AND NOTES RECEIVABLE:

Accounts receivable at June 30, 2006 and 2005 are as follows:

	2006	2005
Student accounts	$ 119,401	$ 184,674
Federal and private grants and contracts	142,521	186,216
Other Claremont Colleges	149,415	90,097
Due from broker	53,418	868,251
Summer conference revenue	-	211,330
Travel advances	41,308	29,646
Other	11,017	79,652
	517,080	1,649,866
Less allowance for doubtful accounts	(34,684)	(84,658)
Total accounts receivable, net	$ 482,396	$ 1,565,208

Notes receivable at June 30, 2006 and 2005 are as follows:

	2006	2005
Student notes	$ 4,734,698	$ 4,698,569
Other	157,436	158,911
	4,892,134	4,857,480
Less allowance for doubtful student notes	(215,338)	(193,568)
Total notes receivable, net	4,676,796	4,663,912
Less current portion	(561,216)	(559,669)
Non current notes receivable	$ 4,115,580	$ 4,104,243

NOTE 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 3.1 to 5.7%.

Unconditional promises to give at June 30, 2006 and 2005 are expected to be realized in the following periods:

	2006	2005
Within one year	$ 1,051,003	$ 1,065,635
Between one year and five years	842,899	1,231,228
More than five years	7,209,216	7,459,664
	9,103,118	9,756,527
Less discount	(218,116)	(267,734)
	8,885,002	9,488,793
Less current portion, net of discount	(1,017,484)	(1,031,199)
Contributions receivable, net	$ 7,867,518	$ 8,457,594

Contributions receivable at June 30, 2006 and 2005 are intended for the following uses:

	2006	2005
Endowment	$ 1,215,257	$ 1,555,867
Non-trustee charitable remainder unitrusts	6,804,217	6,999,664
Other	865,528	933,262
Total	$ 8,885,002	$ 9,488,793

June 30, 2006 and 2005

NOTE 3 - CONTRIBUTIONS RECEIVABLE, CONTINUED:

The College has also received two conditional promises to give totaling $375,000. These promises to give are contingent upon the commencement of a construction project. Since these amounts are conditional, they are not recognized until the condition is met.

NOTE 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, 2006 and 2005:

	2006	2005
Unit market value at end of year	$ 493.96	$ 436.58
Units owned:		
Unrestricted	50,396	51,588
Temporarily restricted	24,172	22,086
Permanently restricted	402,632	400,243
Total	477,200	473,917

Investment income related to College investments, net of management and custody fees of approximately $982,924 and $685,424 for the years ended June 30, 2006 and 2005, respectively, is as follows:

	2006	2005
Pooled investments income	$ 2,959,449	$ 3,133,744
Pooled investments gains appropriated	6,135,975	6,292,788
Total spending policy income and gains	9,095,424	9,426,532
Less amounts allocated to annuity and life income contracts/agreements and for non-budgetary items	(778,820)	(709,377)
Total spending policy income	8,316,604	8,717,155
Other investment income	1,144,704	592,543
Less amounts allocated to annuity and life income contracts/agreements and for non-budgetary items	(131,494)	(146,744)
Total other investment income	1,013,210	445,799
Realized gains on investments	10,477,339	9,450,933
Unrealized gains on investments	22,258,258	15,122,419
Pooled investment gains appropriated	(6,135,975)	(6,292,788)
Net realized and unrealized losses on investments net of allocation to operations	26,599,622	18,280,564
Total investment return	$ 35,929,436	$ 27,443,518

NOTE 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:

	2006			2005		
	Cost	Fair Value		Cost	Fair Value	
Cash equivalents	$ 13,768,176	$ 13,877,864		$ 11,493,426	$ 11,493,862	
Short term investments	2,381,983	2,381,983	*	2,327,682	2,327,682	*
Domestic equities	49,244,941	57,161,605		50,967,980	57,780,467	
International equities	20,374,837	38,678,385		25,275,524	36,687,611	
Private equity	42,883,864	43,923,376		30,580,083	35,881,164	
Domestic fixed income	24,300,478	25,756,008		21,514,869	21,347,804	
International fixed income	128,000	200,731		1,984,000	2,820,673	
Real properties	16,672	656,498		16,672	646,498	
Long/short hedge funds	19,833,715	30,745,787		19,738,342	16,254,747	
Absolute return hedge funds	17,552,000	39,593,396		16,752,000	34,755,949	
Assets whose use is limited	3,944,957	3,944,957	*	4,086,469	4,085,474	
Other assets	823,786	823,786	*	623,826	623,826	*
Total by asset type	$ 195,253,409	$ 257,744,376		$ 185,360,873	$ 224,705,757	

Investment by program:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Investment pool	$ 175,199,546	$ 236,871,266	$ 168,153,394	$ 206,899,893
Separate investments	20,053,863	20,873,110	17,207,479	17,805,864
Total by program	$ 195,253,409	$ 257,744,376	$ 185,360,873	$ 224,705,757

Investments by category:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Endowment and funds functioning as endowment	$ 168,750,014	$ 228,329,821	$ 162,356,479	$ 199,927,226
Annuity and life income funds	9,878,547	12,346,319	9,745,392	11,325,280
Reserve for depreciation	1,252,211	1,613,257	1,191,305	1,368,505
Other	15,372,637	15,454,979	12,067,697	12,084,746
Total by category	$ 195,253,409	$ 257,744,376	$ 185,360,873	$ 224,705,757

* = Cost

NOTE 5 - LIFE INCOME AND ANNUITIES PAYABLE:

Life income and annuities payable of $4,989,261 and $4,699,163 at June 30, 2006 and 2005, respectively, represent actuarially determined liabilities for contractual obligations under gift annuities, unitrusts, and pooled income funds.

June 30, 2006 and 2005

NOTE 6 - NOTE AND BONDS PAYABLE:

At June 30, 2006 and 2005, note and bonds payable were comprised of the following:

	2006	2005
Bond - College and University Facility Loan Trust One	$ -	$ 28,000
Bonds - California Educational Facilities Authority ("CEFA") Series 1997C	2,230,000	2,405,000
Bonds - CEFA Series 1999	9,835,000	10,050,000
Bonds - CEFA Series 2001	12,250,000	12,250,000
	24,315,000	24,733,000
Less unamortized discount and issuance costs	(634,637)	(668,909)
Less current portion	(435,000)	(418,000)
	$ 23,245,363	$ 23,646,091

The CEFA Series 1997C bonds are due in 2015. Annual installments range from $217,300 in March 2007 to $327,400 in March 2015. Interest is payable semi-annually at rates ranging from 5.0% to 5.5%. Bonds maturing after March 1, 2007 with principal balances totaling $219,700,000 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 $185,000 in March 2007 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 Series 1997C bond payments.

The CEFA Series 1999 bonds are due in 2030. Annual installments range from $225,000 in February 2007 to $685,000 in February 2030. Interest is payable semi-annually 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 2031. Annual installments range from $25,000 in August 2006 to $1,675,000 in August 2031, 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 $1,330,023 and $1,357,004 for the years ended June 30, 2006 and 2005, respectively, and includes amortized discount (premium) and cost of issuance of $34,271.

At June 30, 2006, the bond maturities were as follows:

Fiscal Year Ending June 30,	Principal Amount
2007	$ 435,000
2008	460,000
2009	485,000
2010	515,000
2011	545,000
Thereafter	21,875,000
	$ 24,315,000

June 30, 2006 and 2005

NOTE 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 an unsecured $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, 2006 and 2005.

The estimated fair value of the College's bonds payable was approximately $24,831,000 and $25,810,000 at June 30, 2006 and 2005, 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.

NOTE 7 - FUNDS HELD IN TRUST FOR OTHERS:

Included in funds held in trust for others is a non-interest bearing loan of $58,696 for both June 30, 2006 and 2005, which was made to the College by the Weingart Foundation. The College is required to use the funds to make non-interest-bearing loans to qualified students.

NOTE 8 - ASSET RETIREMENT OBLIGATION:

The College has recorded asset retirement obligations under Statement of Financial Accounting Standards No. 143 related to property and equipment, primarily for disposal of regulated materials upon eventual retirment of the assets.

The following schedule summarizes asset retirement obligation activity for the years ended June 30, 2006 and 2005:

	2006	2005
Obligations incurred	$ -	$ -
Obligations settled	-	-
Accretion expense	27,247	26,009
Revisions in estimated cash flows	-	-
	27,247	26,009
Beginning balance	575,016	549,007
Ending balance	$ 602,263	$ 575,016

NOTE 9 - NET STUDENT REVENUES:

Student revenues for the years ended June 30, 2006 and 2005 consist of the following:

	2006	2005
Tuition and fees	$ 28,561,101	$ 24,455,485
Room and board	6,960,863	6,238,339
	35,521,964	30,693,824
Less:		
Sponsored student aid	(2,197,274)	(2,275,653)
Unsponsored student aid	(6,972,548)	(6,116,231)
Net student revenues	$ 26,352,142	$ 22,301,940

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

June 30, 2006 and 2005

NOTE 10 - FUND RAISING EXPENSE:

Included in Marketing Expense in the Statements of Activities are approximately $2,548,000 and $2,266,000 of fund raising expenses for the years ended June 30, 2006 and 2005, respectively.

NOTE 11 - OPERATING LEASES:

During the fiscal year ended June 30, 2006, the College entered into two operating lease agreements for office equipment with terms of 4 and 5 years and annual lease payments of approximately $3,700 and $6,200. At June 30, 2006, the College was obligated under seven office equipment lease agreements and one vehicle lease agreement with remaining terms ranging from 3 months to 4 years with annual lease payments ranging from $3,700 to $18,800.

The lease payments for the years ended June 30, 2006 and 2005 were $64,580 and $58,407, respectively. The following is a summary of future minimum rental payments for operating leases that have initial or remaining non-cancelable terms in excess of one year as of June 30, 2006:

Fiscal Years Ending June 30,	Lease Payments
2007	$ 47,619
2008	30,719
2009	20,163
2010	514
	$ 99,015

NOTE 12 - 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 $6,136,000 and $6,293,000 for the years ended June 30, 2006 and 2005, 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, 2006 and 2005 are as follows:

	2006	2005
Net cash used in operations	$ (3,715,563)	$ (6,373,769)
Depreciation expense	(2,660,742)	(2,681,299)
Pooled investment gains appropriated	6,135,975	6,292,788
Temporarily and permanently restricted spending policy income	(1,036,908)	(986,857)
Temporarily and permanently restricted other investment income, net	(95,712)	(48,246)
Temporarily and permanently restricted other income	(221,928)	(238,397)
Release of temporarily restricted net assets to operations	2,647,468	2,321,712
Transfer to (from) Claremont University Consortium	72,737	(8,521)
Expensed gifts in kind	(2,823)	(6,435)
Decrease in unrestricted receivables, prepaid expenses, deposits and other	(621,862)	(35,513)
Decrease (increase) in accounts payable and other accrued liabilities	41,261	(214,100)
Increase in deposits and deferred revenue	(391,917)	(156,608)
Operating surplus/(deficit)	$ 149,986	$ (2,135,245)

June 30, 2006 and 2005

NOTE 13 - 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, 2006 and 2005 as follows:

	2006	2005
Change in net assets	$ 29,829,556	$ 22,080,832
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	2,660,742	2,681,299
Gifts in kind	(443,325)	(61,000)
Realized gains on sale of investments	(10,477,339)	(9,450,933)
Unrealized gains on investments	(22,258,258)	(15,122,419)
Amortization of bond discount and cost of issuance	34,272	34,272
Amortization of asset retirement obligation	27,247	
Comprehensive pension (income) expense	(334,050)	29,707
Adjustment of actuarial liability for life income agreements	(1,014,959)	(942,417)
Decrease (increase) in accounts and notes receivable	180,371	(88,902)
Decrease in contributions receivable	490,554	2,106,670
Increase in prepaid expenses and deposits	(19,736)	(139,068)
(Decrease) increase in accounts payable and other accrued liabilities	(113,539)	208,757
Increase in deposits and deferred revenue	391,917	156,608
Defined benefit plan contributions (over)/under expense	10,759	(28,928)
Cumulative effect of change in accounting principle	482,872	
Contributions for long-term investments	(3,162,647)	(7,838,247)
Net cash (used in) operating activities	$ (3,715,563)	$ (6,373,769)

NOTE 14 - 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, 2006 and 2005 totaled approximately $1,475,000 and $1,114,000, respectively.

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 15). 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, 2006 and 2005 was approximately $71,000 and $207,000, 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.

June 30, 2006 and 2005

NOTE 15 - 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, 2006 and 2005 totaled approximately $3,081,000 and $2,848,000, respectively.

NOTE 16 - COMMITMENTS AND CONTINGENCIES:

Contracts

The College has made investment commitments to twenty-five limited partnerships totaling $121,900,000. At June 30, 2006, the College has contributed capital of approximately $72,066,000 and has a remaining outstanding commitment of approximately $49,834,000.

The College has remaining commitments on contracts to complete the construction drawings of a recreational athletic facility totaling approximately $193,000 at June 30, 2006.

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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