

CLAREMONT MCKENNA COLLEGE

ANNUAL FINANCIAL REPORT

2005 and 2004

CLAREMONT MCKENNA COLLEGE

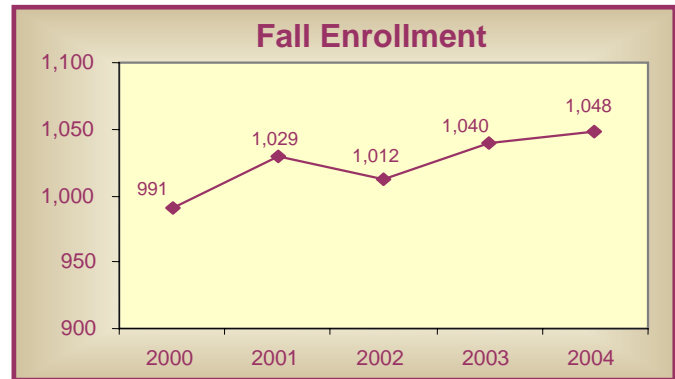
2005 and 2004

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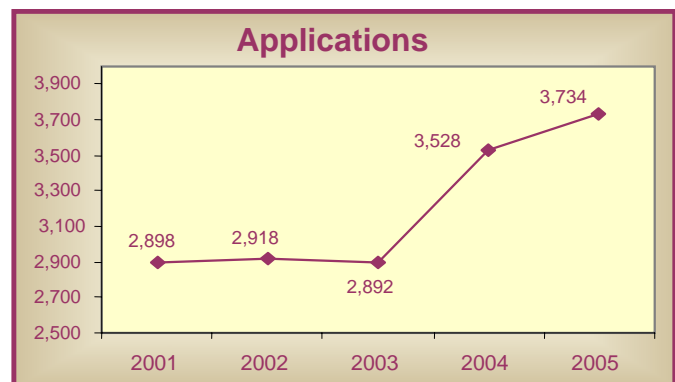
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Financial Highlights

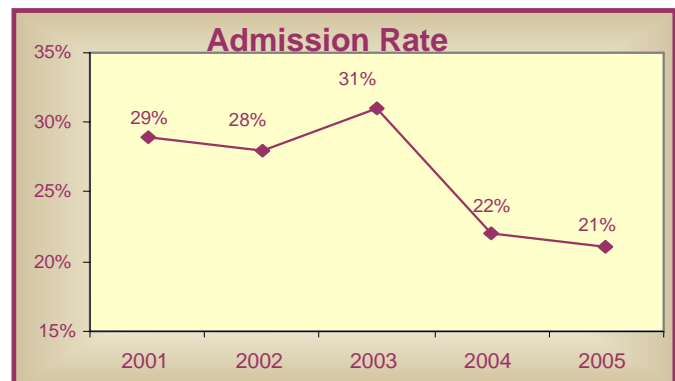
- Fall 2004 FTE enrollment in Claremont continued to climb. The average FTE enrollment for the year was 1,039 compared to a budgeted target of 1,020. FTE enrollment for the 2004-05 fiscal year, including the Washington program and study abroad programs, was 1,117.



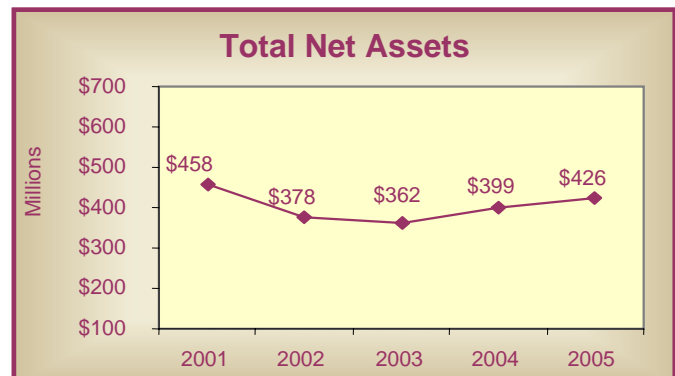
- Freshman applications for admission in Fall of 2005 came in at a record 3,734. Applications for the last five years have averaged 3,194—twelve times more applications than openings in the entering class.



- The drop in the admission rate over the past two years is a direct result of the increase in applications and reflects CMC's increasing selectivity.

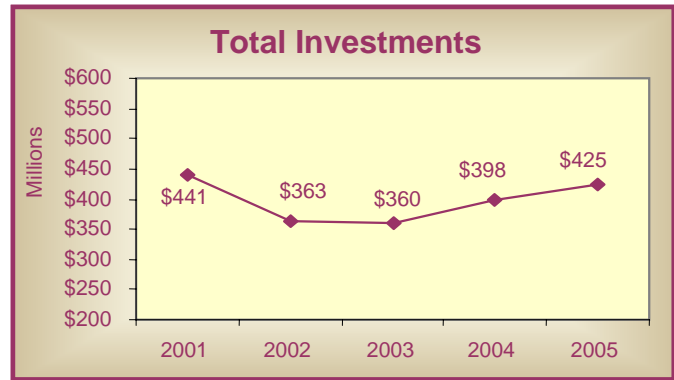


- Total net assets increased by 7% to \$426 million due primarily to increases from gifts and gains on investments.



Financial Highlights

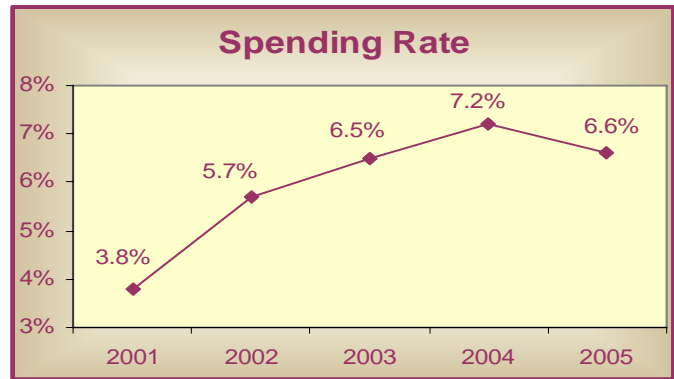
- Total investments, net of securities lending collateral, increased by 7% in 2005, after fees and spending for operations.



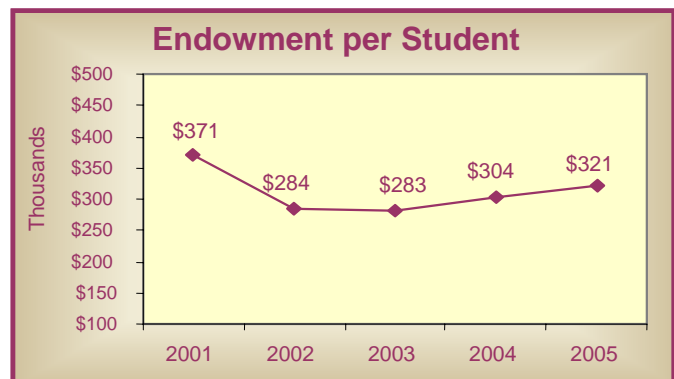
- The unit market value increased by 4%. Unit market value reflects general market performance after spending for operations.



- The trustees adopted a revised spending policy effective for the 2006-07 fiscal year. Based on the new policy, the spending rate (spending amount per unit divided by unit market value at the beginning of the year) should continue a downward trend.

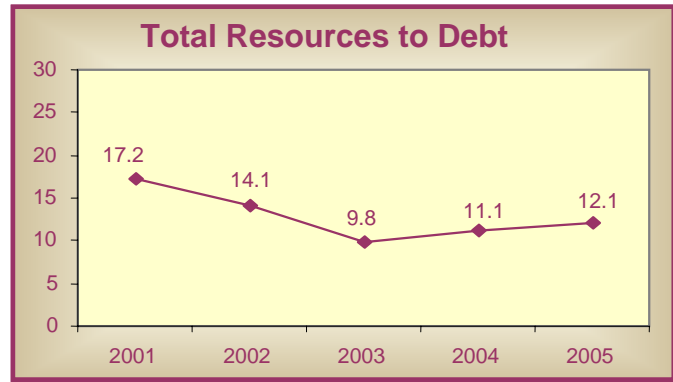


- Endowment per student increased as a result of the positive returns on investments. Total endowment at June 30, 2005, was \$336 million.

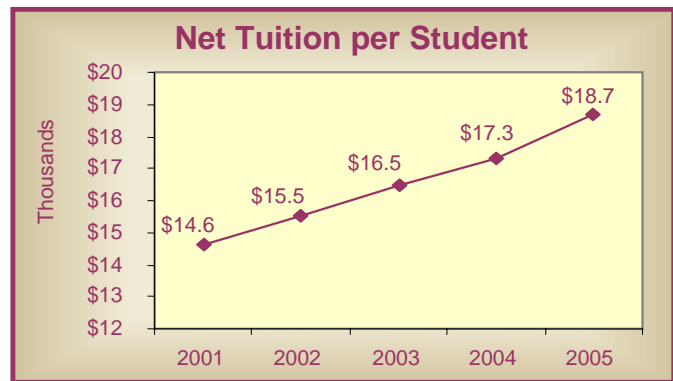


Financial Highlights

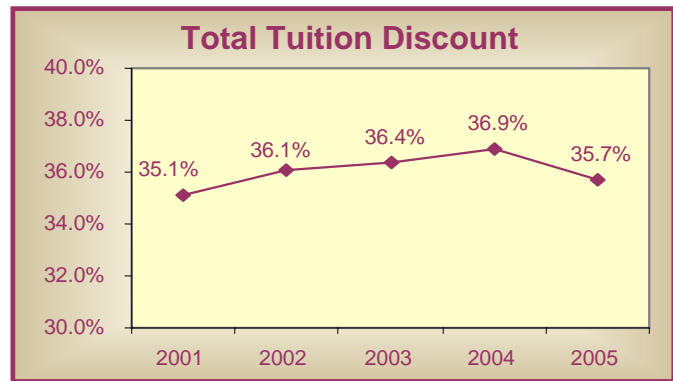
- Total debt increased in 2003 as a result of new bonds issued by the College. An increase in resources in 2005 improved this ratio. CMC's ratio remains well above the 2004 median value of 7.9 for Moody's Aa small institutions (enrollments under 3,000 FTE).



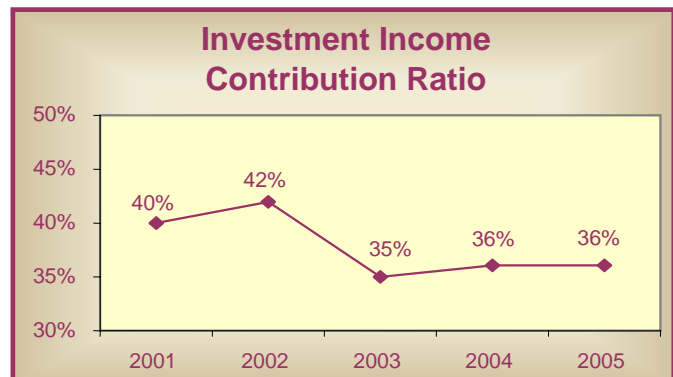
- CMC experienced growth in net tuition per student at a rate slightly higher than the rate of increase in tuition, a direct result of a decrease in the tuition discount. This dollar level places CMC above the 2004 median net tuition per student of \$17,408 for Moody's Aa small institutions.



- Total tuition discount percentage (financial aid expense divided by tuition and fees revenues) decreased for the first time in several years. It exceeds the median discount of 32.7% for Moody's Aa small institutions.

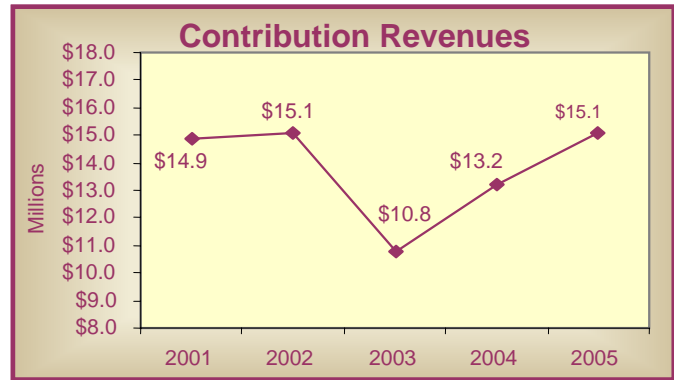


- CMC's endowment and a prudent spending policy produce sufficient investment income to make a significant contribution toward covering the operational costs of a CMC education. The dip in 2003 was directly related to the decrease in the unit market value and its effect on spending.

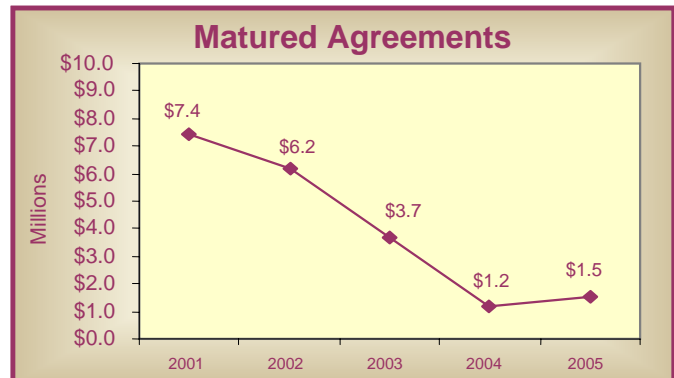


Financial Highlights

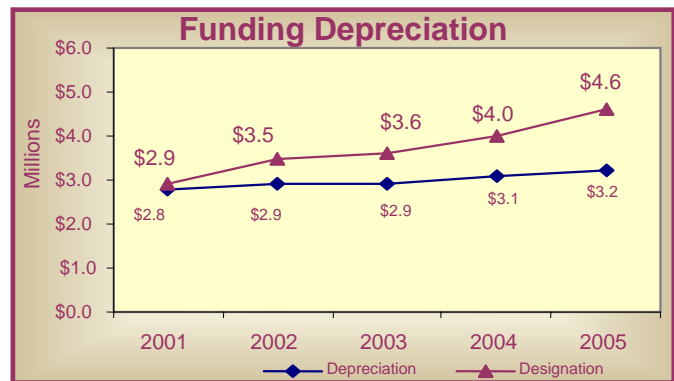
- Cash private gifts and grants were \$19.1 million, slightly exceeding CMC's goal of \$19 million. After actuarially adjusting the deferred gifts and adding in unconditional promises to give, contribution revenues finished the fiscal year at \$15.1 million. (As restated)



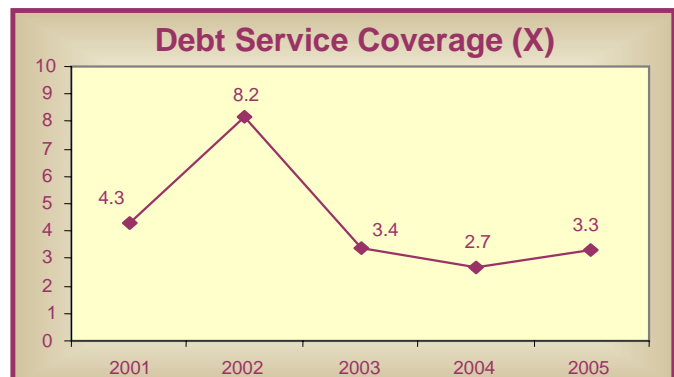
- Although unpredictable from year to year, matured annuity and life income agreements continue to provide significant resources to the College's endowment funds.



- CMC continues its policy of fully funding depreciation expense. Annual set-asides for the renewal and replacement of facilities are budgeted to exceed the amount of depreciation expense recorded in the financial statements.



- Debt service coverage (net operating revenues plus interest and depreciation expense divided by annual debt service) increased in 2005 as a direct result of an increase in the College's net operating revenues.



October 21, 2005

Members of the Board of Trustees
Claremont McKenna College
Claremont, California

Ladies and Gentlemen:

The fiscal year that ended on June 30, 2005 was a financially strong year for the College. The return on investments, gross of fees, was 12.4%, which exceeded the College's benchmarks used to measure performance for the fiscal year. Total gifts received were higher than they have been each of the past two years, and total unrestricted revenues exceeded total unrestricted expenses by more than \$2.5 million.

The outlook remains strong in the recruiting and admission of new students, with a number of continued positive trends this year. The average FTE enrollment in Claremont for the fiscal year of 1,039 students exceeded the budgeted target of 1,020 students. Total applications for the newly admitted class of 2009, which completed the application process in 2004-05, increased 5.8% from the prior year, and 29.1% from two years ago. Of the 3,734 applications received, 21% were accepted (admission rate), and 35% were enrolled (yield rate). The median SAT score was 1400. The newly-admitted freshmen represented 30 states and 17 foreign countries. Net tuition per student continued to increase, while the total tuition discount (scholarships provided to students) decreased for the first time in several years. The College continues to maintain its need-blind, meet-all-need admission policy.

A new Audit Committee of the Board of Trustees was established this year as part of the College's efforts to improve corporate governance and accountability as outlined in the Sarbanes-Oxley Act. This Committee will monitor best practices and will work with the College's administration to implement the appropriate policies.

Statements of Financial Position

The most significant changes in the statements of financial position relate to the increase in the value of the College's investments. This increase is also reflected in the unrestricted and permanently restricted net assets. The newly restructured Investment Committee implemented significant changes in the College's asset allocation policy during the year with the effect of increasing potential investment returns while reducing the risk in the portfolio. This diversification also resulted in a significant decrease in assets eligible for the College's securities

Members of the Board of Trustees
October 21, 2005

lending program as noted in the liability section of the statement of financial position. Plant facilities increased as a result of the completion and capitalization of a new administration building to house the alumni relations, development, public affairs & communications, and human resources offices of the College. This additional office space has freed up space in several other buildings for faculty offices and institutes.

Other plant facility improvements include the further addition of fire sprinklers in student residence halls, with only one phase remaining for completion, the addition of a new parking lot, the renovation of the dining room in Collins Dining Hall, and the renovation of one of the College-owned houses in the Arbol Verde inventory of property.

Statement of Activities

The statement of activities highlights the transactions that changed net assets during the fiscal year. Student revenues, net of scholarships and grants, increased \$2.1 million as a result of tuition, room and board charge increases and an increase in FTE from the prior year. Total private gifts and grants increased \$1.9 million, or 14.1% from the prior year. Investment income increased \$0.6 million, or 2.9%, following the payout formula established in the College's spending policy. Beginning with the 2003-04 fiscal year, the policy follows a constant growth spending model whereby the per-unit spending is increased by 4.5% each year as long as the new amount falls within a calculated collar of 3.25% to 6.25% based on 12-quarter average unit market values. The College bumped up against the collar limit in 2004-05, causing a decrease of 1.5% in the unit spending amount from the prior year. This decreasing trend continues into 2005-06. The calculated spending rate for 2004-05 was 6.6% (spending amount per unit divided by unit market value at the beginning of the year), exceeding the 5.0% average spending rate for colleges and universities reported in the 2004 NACUBO endowment study. The College's spending rate has exceeded 5.5% for the past four years. Based on future investment return projections, the spending rate, calculated under the current spending policy, is not expected to decrease to a target of 5% for the near future.

This analysis prompted the trustees to revise the spending policy for the 2006-07 fiscal year, and has led the campus community to examine priorities, implement cost reductions, and reallocate costs to balance the budget. The revised spending policy reduces the annual per-unit increase to 4.0%, and tightens the collar limits to 4.5% to 5.5%. Although the spending amount per unit decreased in 2004-05, the investment income line item in the statement of activities increased in total because of other investment income activity that included new gifts and voluntary transfers added to the pooled investments fund to support operations. Investment income contributed 36% toward the cost of providing an education at Claremont McKenna College, consistent with the last two years, but lower than in the 1990s.

Total expenses increased 4.9%, most directly related to costs included in instruction, research, and institutional support. Eleven core faculty members were added during the year, increasing instruction and research-related expenses. The research line item also included expenses of the first full year of operating the new Financial Economics Institute. The Kravis Leadership Institute was also expanded to include planning for the new Henry R. Kravis Prize in Leadership, an annual event to be inaugurated on May 6, 2006. Other increases in institutional expenses related to the incremental costs of new facilities.

Members of the Board of Trustees
October 21, 2005

The most significant contributors to the overall increase in net assets were realized and unrealized investment gains, and private gifts. Maturities of annuity and life income agreements were lower than past history, but this line item is unpredictable. In addition to the annuity and life income releases shown on the face of the statement of activities, \$937,000 was also released to the endowment within the permanently restricted category. The actuarial adjustment represents changes in the expected future commitments on split-interest agreements, based on the age of beneficiaries and the future payment obligations. The defined-benefit retirement plan covering substantially all nonacademic employees of the College was frozen on June 30, 2005, and all eligible employees were transferred to the defined contribution plan on July 1, 2005. The College continues to designate annually an amount of unrestricted net assets equal to or greater than the calculated amount of depreciation expense to fund a reserve for future campus renovations and replacements.

Statements of Cash Flows

There was a net decrease of almost \$2.1 million in cash flows for fiscal year 2005. The net cash used in operating activities of \$13.7 million was offset by the net cash provided by investing activities of \$10.6 million and the net cash provided by financing activities of \$1.1 million.

Summary

Fiscal year 2005 produced strong financial results. Investment markets continued to improve and private gifts were a big contributor to operations of the College. Enrollment exceeded the target for students in Claremont, while acceptance and yield rates for freshman applications hit near-record levels. Funds in excess of depreciation were added to a reserve for renovations, and the College continues to be on top of deferred maintenance issues with its facilities. The Finance Committee of the Board of Trustees continues to predict tight budgets for the next several years, and the Board of Trustees has approved a revised spending policy to bring the spending rate back in line with peer institutions. The College's administration is committed to managing expenses as it continues adapting to a changing financial environment.

Respectfully submitted,

Robin J. Aspinall
Vice President for Business and Administration and Treasurer

CLAREMONT MCKENNA COLLEGE

REPORT ON AUDITED FINANCIAL STATEMENTS

For the Years Ended June 30, 2005 and 2004

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
Claremont McKenna 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 Claremont McKenna 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.

October 6, 2005

CLAREMONT MCKENNA COLLEGE
STATEMENTS OF FINANCIAL POSITION
June 30, 2005 and 2004
(in thousands)

	<u>2005</u>	<u>2004</u>
Assets		
Cash	\$ 260	\$ 2,348
Accounts and notes receivable, net (Note 2)	14,896	13,854
Prepaid expenses, deposits and other assets	1,257	701
Contributions receivable, net (Note 3)	4,983	5,180
Contributions receivable from revocable trusts (Note 3)	8,642	8,325
Investments (Note 4)	440,503	428,251
Plant facilities (Note 5)	<u>63,476</u>	<u>62,037</u>
Total assets	<u>\$534,017</u>	<u>\$520,696</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 3,421	\$ 3,591
Funds held in trust for others	683	518
Obligations under securities lending program (Note 4)	15,924	29,921
Deposits and deferred revenues	966	973
Staff retirement liability	897	898
Life income and annuities payable (Note 6)	42,453	41,545
Bonds payable (Note 7)	32,064	32,849
Government advances for student loans	3,075	2,931
Refundable advances from revocable trusts (Note 3)	<u>8,642</u>	<u>8,325</u>
Total liabilities	<u>108,125</u>	<u>121,551</u>
Net assets (Note 8)		
Unrestricted	234,949	217,465
Temporarily restricted	21,288	19,901
Permanently restricted	<u>169,655</u>	<u>161,779</u>
Total net assets	<u>425,892</u>	<u>399,145</u>
Total liabilities and net assets	<u>\$534,017</u>	<u>\$520,696</u>

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

CLAREMONT MCKENNA COLLEGE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues				
Student revenues	\$ 41,594	\$ -	\$ -	\$ 41,594
Less: Financial aid	<u>(11,593)</u>	<u>-</u>	<u>-</u>	<u>(11,593)</u>
Net student revenues (Note 9)	30,001	-	-	30,001
Private gifts and grants	4,569	5,650	4,864	15,083
Federal grants	550	-	-	550
Private contracts	429	-	-	429
Investment income	18,080	3,269	1,092	22,441
Other revenues (Note 10)	1,037	-	-	1,037
Release of temporarily restricted net assets	<u>7,219</u>	<u>(7,219)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>61,885</u>	<u>1,700</u>	<u>5,956</u>	<u>69,541</u>
Expenses				
Instruction	19,888	-	-	19,888
Research	4,894	-	-	4,894
Academic support	5,157	-	-	5,157
Student services	9,331	-	-	9,331
Institutional support (Note 11)	11,974	-	-	11,974
Auxiliary enterprises	<u>8,126</u>	<u>-</u>	<u>-</u>	<u>8,126</u>
Total expenses	<u>59,370</u>	<u>-</u>	<u>-</u>	<u>59,370</u>
Revenues over expenses	2,515	1,700	5,956	10,171
Other changes in net assets				
Realized and unrealized gains (losses), net of spending allocation	14,432	(3)	(11)	14,418
Matured annuity and life income agreements (Note 12)	587	(587)	-	-
Actuarial adjustment	-	1,324	965	2,289
Net assets released for capital projects	86	(86)	-	-
Transfers to other Claremont Colleges	(81)	-	-	(81)
Staff retirement plan comprehensive loss	(50)	-	-	(50)
Transfers and redesignations between net asset categories	<u>(5)</u>	<u>(961)</u>	<u>966</u>	<u>-</u>
Change in net assets	17,484	1,387	7,876	26,747
Net assets beginning of year	<u>217,465</u>	<u>19,901</u>	<u>161,779</u>	<u>399,145</u>
Net assets end of year	<u>\$234,949</u>	<u>\$21,288</u>	<u>\$169,655</u>	<u>\$425,892</u>

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

CLAREMONT MCKENNA COLLEGE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues				
Student revenues	\$ 39,181	\$ -	\$ -	\$ 39,181
Less: Financial aid	<u>(11,328)</u>	<u>-</u>	<u>-</u>	<u>(11,328)</u>
Net student revenues (Note 9)	27,853	-	-	27,853
Private gifts and grants	4,053	4,332	3,836	12,221
Federal grants	451	-	-	451
Private contracts	153	-	-	153
Investment income	17,578	3,207	1,031	21,816
Other revenues (Note 10)	1,434	-	-	1,434
Release of temporarily restricted net assets	<u>6,129</u>	<u>(6,129)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>57,651</u>	<u>1,410</u>	<u>4,867</u>	<u>63,928</u>
Expenses				
Instruction	18,585	-	-	18,585
Research	4,294	-	-	4,294
Academic support	4,958	-	-	4,958
Student services	8,832	-	-	8,832
Institutional support (Note 11)	10,991	-	-	10,991
Auxiliary enterprises	8,323	-	-	8,323
Facility write down (Note 20)	<u>613</u>	<u>-</u>	<u>-</u>	<u>613</u>
Total expenses	<u>56,596</u>	<u>-</u>	<u>-</u>	<u>56,596</u>
Revenues over expenses	1,055	1,410	4,867	7,332
Other changes in net assets				
Realized and unrealized gains (losses), net of spending allocation	26,021	(19)	7	26,009
Matured annuity and life income agreements (Note 12)	476	(510)	34	-
Actuarial adjustment	-	572	2,533	3,105
Net assets released for capital projects	1,930	(1,930)	-	-
Transfers to other Claremont Colleges	(195)	-	-	(195)
Staff retirement plan comprehensive income	410	-	-	410
Transfers and redesignations between net asset categories	<u>49</u>	<u>806</u>	<u>(855)</u>	<u>-</u>
Change in net assets	29,746	329	6,586	36,661
Net assets beginning of year	<u>187,719</u>	<u>19,572</u>	<u>155,193</u>	<u>362,484</u>
Net assets end of year	<u>\$217,465</u>	<u>\$19,901</u>	<u>\$161,779</u>	<u>\$399,145</u>

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

CLAREMONT MCKENNA COLLEGE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2005 and 2004
(in thousands)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$26,747	\$36,661
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	3,210	3,075
Amortization of bond discounts and issuance costs	10	9
Allowance for doubtful accounts	(2)	9
Realized loss on disposal of plant facility	-	613
Comprehensive loss (gain) on staff retirement plan	50	(410)
Discount on life income contract gifts	3,499	6,516
Realized and unrealized gains on investments	(33,864)	(48,753)
Non-cash gifts	(5,484)	(6,384)
Adjustment of actuarial liability for annuities payable	(2,271)	(3,205)
(Increase) decrease in accounts and contributions receivable	(173)	2,426
Increase in prepaid expenses and deposits	(556)	(329)
Decrease in accounts payable and accrued liabilities	(170)	(22)
Increase in funds held in trust for others	165	58
(Decrease) increase in deposits and deferred revenues	(7)	302
Contributions for long-term investments	(4,850)	(7,412)
Defined benefit plan contributions (over) under expense	<u>(51)</u>	<u>87</u>
Net cash used in operating activities (Note 13)	<u>(13,747)</u>	<u>(16,759)</u>
Cash flows from investing activities:		
Purchase of plant facilities	(4,649)	(6,248)
Proceeds from sales of investments	340,960	215,300
Purchases of investments	(325,074)	(194,803)
Loans made to students	(2,328)	(2,518)
Collection of student loans	<u>1,658</u>	<u>1,561</u>
Net cash provided by investing activities	<u>10,567</u>	<u>13,292</u>
Cash flows from financing activities:		
Payments to annuity and life income beneficiaries	(5,671)	(4,675)
Investment income for annuity and life income investments	2,564	2,589
Principal payments for borrowings	(795)	(665)
Contributions for life income contracts	2,105	3,266
Contributions restricted for endowment	2,157	3,088
Contributions restricted for plant expenditures and student loans	588	1,059
Increase in government advances for student loans	<u>144</u>	<u>99</u>
Net cash provided by financing activities	<u>1,092</u>	<u>4,761</u>
Net (decrease) increase in cash	(2,088)	1,294
Cash at beginning of year	<u>2,348</u>	<u>1,054</u>
Cash at end of year	<u>\$ 260</u>	<u>\$ 2,348</u>
Supplemental disclosure of cash flows:		
Interest paid	<u>\$ 1,557</u>	<u>\$ 1,589</u>

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

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2005 and 2004

1. Summary of Significant Accounting Policies:

Established in 1946, Claremont McKenna College (the “College”) is a highly selective, independent, coeducational, residential undergraduate liberal arts college. The College’s mission, within the mutually supportive framework of The Claremont Colleges (Note 16), is to educate students for thoughtful and productive lives and responsible leadership in business, government, and the professions, and to support faculty and student scholarship that contribute to intellectual vitality and the understanding of public policy issues.

The 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 objective of the College is to maintain and conduct a nonprofit educational institution. The primary purpose of the accounting and reporting is the recording of resources received and applied rather than the determination of net income.

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 in accordance with the American Institute of Certified Public Accountants’ Audit and Accounting Guide, “Not-for-Profit Organizations.”

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 are not subject to donor-imposed restrictions. Temporarily restricted net assets are subject to donor-imposed restrictions that either lapse or can be satisfied. Permanently restricted net assets are subject to permanent donor-imposed restrictions. Generally, the donors permit the College to use all or part of the income earned on permanently restricted net assets for general or specific purposes.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

1. Summary of Significant Accounting Policies, Continued:

Tuition and Fees:

Student tuition and fees are recorded as revenues in the year during which the related academic services are rendered.

Grants and Contracts:

Revenues from grants and contracts are reported as increases in unrestricted net assets, as allowable expenditures under such agreements are incurred.

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 contributions are received 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 at the date of gift. Contributions to be received are discounted at an appropriate discount rate.

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 period 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 as unrestricted revenues when restrictions are met in the same period as received. It is also the College's policy to release 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.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

1. Summary of Significant Accounting Policies, Continued:

Allocation of Certain Expenses:

Expenses are generally reported as decreases in unrestricted net assets. The Statements of Activities present expenses by functional classification. Depreciation and the cost of operation and maintenance of plant facilities are allocated to functional categories based on building square footage dedicated to that specific function. Interest expense is allocated based on the use of the related borrowings, which is primarily to finance auxiliary enterprise construction.

Investments:

Where permitted by law, the College pools investments for management purposes. The remainder of investments are managed as separate investments. Marketable securities are reported at fair market value. Real estate investments, trust deed loans, and certain other miscellaneous assets are stated at cost. The non-marketable alternative investments are carried at estimated fair value provided by the management of the non-marketable alternative investment partnerships or funds at the most current date available at year end, and are adjusted by cash receipts, cash disbursements, and securities distributions through June 30, 2005 and 2004. The College believes that the carrying amount of its non-marketable alternative investments is a reasonable estimate of fair value as of June 30, 2005 and 2004. Because non-marketable alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material. 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. Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. The date of record for investments is the trade date.

Redesignations:

Certain amounts previously received from donors have been transferred among net asset categories due to changes in donor designations.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

1. Summary of Significant Accounting Policies, Continued:

Management of Pooled Investments:

The College follows an investment policy which anticipates a greater long-range 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. The amount of investment return available for current operations is determined by applying an increase of 4.5% to the prior year unit spending rate, provided that the resulting calculation falls within a collar of 3.25% to 6.25% of a twelve quarter average unit market value. For the year ended June 30, 2005, the rate was capped at the upper threshold of 6.25%. If the ordinary income portion of pooled investments return is insufficient to provide the full amount of investment return specified, the balance may be appropriated from 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 \$86,793,000 and \$58,015,000, respectively.

Plant Facilities:

Plant facilities consist of property, plant and equipment which are stated at cost, representing the original purchase price or the fair market value at the date of the gift, less accumulated depreciation computed on a straight-line basis over the estimated useful lives of buildings, permanent improvements and equipment. Estimated useful lives are generally 7 years for equipment, 40 years for buildings and 25 years for permanent improvements. Assets are retired at their cost less accumulated depreciation at the time they are sold, impaired, or no longer in use. Each year the College funds its annual depreciation charge by transferring an amount equal to or greater than its annual depreciation charge from its operating fund into its unrestricted renewal and replacement reserves.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

1. Summary of Significant Accounting Policies, Continued:

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 released. However, the costs of managing these contracts and agreements are included in unrestricted 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. The liability account is credited with investment income and gains and is charged with investment losses and payments to beneficiaries. Periodic adjustments are made between the liability account and the net asset account for actuarial gains and losses. The actuarial liability is based on the present value of future payments discounted at rates ranging from 4.0% to 7.5% and over estimated lives according to 1983 Group Annuity Mortality Tables.

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.

Cash and Cash Equivalents:

For the purposes of reporting cash flows, cash includes demand deposit bank accounts. Resources invested in money market funds are classified as cash equivalents, except that any such investments managed as part of the investment pool are classified as investments.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

1. Summary of Significant Accounting Policies, Continued:

Reclassifications:

Certain prior year amounts have been reclassified for consistency with current year presentation.

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. A determination of the fair value of notes 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, is not practical because such a determination cannot be made without incurring excessive costs.

2. Accounts and Notes Receivable, net:

Accounts and notes receivable at June 30, 2005 and 2004 are as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Student notes receivable	\$ 10,833	\$ 10,261
Federal loan funds	2,944	2,845
Other Claremont Colleges	296	232
Student accounts	204	205
Investment receivables	368	187
Grants and contracts receivable	203	118
Other	<u>167</u>	<u>121</u>
	15,015	13,969
Less allowance for doubtful accounts	<u>(119)</u>	<u>(115)</u>
Net accounts and notes receivable	\$ <u>14,896</u>	\$ <u>13,854</u>

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

3. Contributions Receivable, net:

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 1.52% to 6.37%:

Unconditional promises to give at June 30, 2005 and 2004 are expected to be realized as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Within one year	\$ 2,011	\$ 3,402
Between one year and five years	3,156	2,002
More than five years	<u>107</u>	<u>76</u>
	5,274	5,480
Less discount	<u>(291)</u>	<u>(300)</u>
Net contributions receivable	<u>\$ 4,983</u>	<u>\$ 5,180</u>

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

	<u>2005</u>	<u>2004</u>
Endowment	\$ 1,582	\$ 1,588
Plant	1,463	1,544
Other	<u>1,938</u>	<u>2,048</u>
	<u>\$ 4,983</u>	<u>\$ 5,180</u>

Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. At June 30, 2005 and 2004, the College had knowledge of \$16,765,000 and \$16,525,000, respectively, of conditional promises to give through bequests that will not be recognized as revenue until the respective conditions in the wills are met.

In addition, the College is the trustee for certain revocable trusts. Revocable trusts are included in the financial statements as contributions receivable and refundable advances. At June 30, 2005 and 2004, the College had \$8,642,000 and \$8,325,000, respectively, of revocable trusts that will not be recognized as revenue until the trusts become irrevocable or the assets are distributed to the College for its unconditional use.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

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:

	Pooled Investments Fund	
	<u>2005</u>	<u>2004</u>
Unit market value at end of year	<u>\$500.06</u>	<u>\$479.18</u>
Net ordinary investment income per weighted average unit	<u>\$5.48</u>	<u>\$0.72</u>
Units owned:		
Unrestricted:		
Funds functioning as endowment	190,480	188,269
College loan investments	380	380
Other	<u>4,901</u>	<u>4,700</u>
Total unrestricted	<u>195,761</u>	<u>193,349</u>
Temporarily restricted:		
Annuity and life income contracts and agreements	<u>19,770</u>	<u>41,410</u>
Permanently restricted:		
Endowment	477,506	465,819
College loan investments	16,839	15,313
Annuity and life income contracts and agreements	<u>50,181</u>	<u>28,349</u>
Total permanently restricted	<u>544,526</u>	<u>509,481</u>
Total units	<u>760,057</u>	<u>744,240</u>
Weighted average units	<u>750,588</u>	<u>730,563</u>

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

4. Investments, Continued:

Investment income related to College investments for the years ended June 30, 2005 and 2004, net of management and custody fees of \$2,765,000 and \$2,383,000, respectively, is as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Amounts allocated in accordance with the spending policy for pooled investments:		
Net pooled investment income	\$ 4,111	\$ 525
Pooled investments gains appropriated	<u>19,446</u>	<u>22,744</u>
Total spending policy income and gains	23,557	23,269
Other investment income	1,528	1,098
Less amounts allocated to annuity and life income contracts and agreements	<u>(2,644)</u>	<u>(2,551)</u>
Total investment income	22,441	21,816
Realized and unrealized gains, net of spending allocation	<u>14,418</u>	<u>26,009</u>
Total investment returns	\$ <u>36,859</u>	\$ <u>47,825</u>

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

4. Investments, Continued:

It is the College's policy to establish and maintain a diversified investment portfolio. The following schedule summarizes the assets in pooled investments and the assets held as separate investments at June 30, 2005 and 2004. The carrying value of investments are based on the quoted market prices, analytical pricing methods for investments for which there is no market, and the carrying value of limited partnership net assets in proportion to the College's interest. The carrying values are considered fair values.

	2005 <u>(\$000)</u>	2004 <u>(\$000)</u>
Pooled investments:		
Cash equivalents	\$ 7,038	\$ 17,611
Marketable securities lent under securities lending program	14,974	28,828
Marketable securities	202,272	228,092
Non-marketable alternative investments	98,992	82,092
Marketable alternative investments	<u>56,796</u>	<u>-</u>
Total pooled investments	<u>\$380,072</u>	<u>\$356,623</u>
Separate investments:		
Cash equivalents	\$ 36,685	\$ 45,903
Marketable securities	16,674	19,089
Assets whose use is limited	214	3,149
Non-marketable alternative investments	-	97 *
Real estate and other	<u>6,858</u> *	<u>3,390</u> *
Total separate investments	<u>\$ 60,431</u>	<u>\$ 71,628</u>
Total investments	<u>\$440,503</u>	<u>\$428,251</u>

At June 30, 2005 and 2004, total investments at cost were approximately \$397,708,000 and \$373,738,000, respectively.

* Cost

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

4. Investments, Continued:

	2005 <u>(\$000)</u>	2004 <u>(\$000)</u>
By category:		
Endowment and funds functioning as endowment:		
Pooled	\$334,032	\$313,424
Separately invested	<u>398</u>	<u>759</u>
Total endowment and funds functioning as endowment	<u>\$334,430</u>	<u>\$314,183</u>
Annuity and life income contracts and agreements:		
Pooled	\$ 34,979	\$ 33,427
Separately invested	<u>22,919</u>	<u>21,527</u>
Total annuity and life income contracts and agreements	<u>\$ 57,898</u>	<u>\$ 54,954</u>
Other:		
Pooled	\$ 11,061	\$ 9,772
Separately invested	<u>37,114</u>	<u>49,342</u>
Total other	<u>\$ 48,175</u>	<u>\$ 59,114</u>
Total by category	<u>\$440,503</u>	<u>\$428,251</u>

The College is named as trustee of The Berger Philanthropic Fund (the "Fund") of which the College is a 20% beneficiary. At June 30, 2005 and 2004 the College has recorded assets of the Fund totaling approximately \$2,490,000 and \$2,267,000, net of third party remainderman interests of approximately \$2,451,000 and \$2,252,000, for a net asset of approximately \$39,000 and \$15,000, respectively, in endowment. The net assets consist primarily of investments in money market funds.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

4. Investments, Continued:

The College participates in a securities lending program with its trustee bank as lending agent. All securities on loan are fully collateralized by cash in amounts equal to or greater than the market value of the securities. The lending agent is responsible for ensuring the credit worthiness of the borrowers and maintaining the collateral assets in high quality investments. The market value of securities on loan at June 30, 2005 and 2004 was approximately \$14,974,000 and \$28,828,000, respectively. The cash collateral from securities lending at June 30, 2005 and 2004 was approximately \$15,924,000 and \$29,921,000, respectively and is included in cash equivalents as a separate investment.

5. Plant Facilities:

Plant facilities are recorded at cost or estimated fair value at date of donation, and at June 30, 2005 and 2004, consist of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Land and land improvements	\$ 6,573	\$ 6,160
Buildings	76,331	71,723
Equipment	13,879	13,280
Property held for future use	5,744	5,374
Construction in progress	<u>1,537</u>	<u>2,878</u>
	104,064	99,415
Less accumulated depreciation	<u>(40,588)</u>	<u>(37,378)</u>
Net plant facilities	<u>\$63,476</u>	<u>\$62,037</u>

6. Life Income and Annuities Payable:

Life income and annuities payable of \$42,453,000 and \$41,545,000 at June 30, 2005 and 2004, respectively, represent actuarially determined liabilities for contractual obligations under gift annuities, unitrusts, and pooled income funds.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

7. Bonds Payable:

At June 30, 2005 and 2004, bonds payable are comprised of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Bonds issued through California Educational Facilities Authority ("CEFA"):		
Series 1995 A	\$ 1,370	\$ 1,505
Series 1999	21,420	21,885
Series 2003	<u>9,690</u>	<u>9,885</u>
	32,480	33,275
Less unamortized discount and issuance costs	<u>(416)</u>	<u>(426)</u>
Total bonds payable	<u>\$32,064</u>	<u>\$32,849</u>

The CEFA Series 1995 A bonds are due in 2012. Annual installments range from \$140,000 in 2006 to \$205,000 in 2012. Interest is payable semiannually at rates ranging from 5.25% to 5.60%, as of June 30, 2005. Bonds maturing after December 1, 2005 with principal balances totaling \$1,230,000 are subject to mandatory redemption at prices ranging from 102% to 100%.

The CEFA Series 1999 bonds are due in 2029. Annual installments range from \$480,000 in 2006 to \$1,440,000 in 2029. Interest is payable semiannually at rates ranging from 3.60% to 5.10%, as of June 30, 2005. Bonds maturing after November 1, 2013 with principal balances totaling \$16,365,000 are subject to mandatory redemption at prices ranging from 101% to 100%.

The CEFA Series 2003 bonds are due in 2033. Annual installments range from \$195,000 in 2006 to \$600,000 in 2033. Interest is payable semiannually at rates ranging from 2.00% to 4.75%, as of June 30, 2005. Bonds maturing after January 1, 2013 with principal balances totaling \$7,965,000 are subject to redemption at the outstanding principal balance plus accrued interest.

Interest expense was approximately \$1,557,000 and \$1,589,000 for the years ended June 30, 2005 and 2004, respectively.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

7. Bonds Payable, Continued:

The maturity of bonds payable at June 30, 2005 is as follows (in thousands):

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u> <u>Amount</u>
2006	\$ 815
2007	840
2008	880
2009	910
2010	950
Thereafter	<u>28,085</u>
	<u>\$32,480</u>

The CEFA Series 2003, 1999 and 1995 A bond agreements contain various restrictive covenants which include maintenance of certain financial ratios, as defined in the agreement.

The estimated fair value of the College's bonds payable at June 30, 2005 and 2004 was approximately \$33,737,000 and \$33,279,000, respectively. This estimated fair value was based upon the discounted amount of future cash outflows at current rates available to the College for debt of the same remaining maturities.

The College has a \$2,000,000 line of credit with a bank. Any borrowings on the line would bear interest at the bank's prime rate (6.25% at June 30, 2005). There were no borrowings outstanding on the line at June 30, 2005 and 2004.

The College has a \$687,888 irrevocable standby letter of credit with a bank for security related to certain public works improvements to be made at the College which expires on September 30, 2005.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

8. Net Assets:

At June 30, 2005 and 2004, net assets consist of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Unrestricted:		
For operations and designated purposes	\$ 4,242	\$ 4,018
Student loans	1,215	808
Funds functioning as endowment	193,326	178,995
Plant facilities	37,318	34,746
Provision for defined benefit plan comprehensive loss	<u>(1,152)</u>	<u>(1,102)</u>
Total unrestricted	<u>\$234,949</u>	<u>\$217,465</u>
Temporarily restricted:		
Restricted for specific purposes	\$ 15,632	\$ 15,240
Annuity and life income contracts and agreements	<u>5,656</u>	<u>4,661</u>
Total temporarily restricted	<u>\$ 21,288</u>	<u>\$ 19,901</u>
Permanently restricted:		
Student loans	\$ 18,085	\$ 17,067
Annuity and life income contracts and agreements	8,884	7,936
Endowment	<u>142,686</u>	<u>136,776</u>
Total permanently restricted	<u>\$169,655</u>	<u>\$161,779</u>

Deficiencies of \$6,350,000 at June 30, 2005, and \$7,763,000 at June 30, 2004 for donor-restricted endowment funds, resulting from declines in market value from the original gift amount, have been recorded in unrestricted net assets. As the market value of the portfolio increases, the deficiency will reverse. The allocation of deficiencies is recorded in accordance with Statement of Financial Accounting Standards No. 24, "Accounting for Certain Investments Held by Not-For-Profit Organizations."

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

9. Net Student Revenues:

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

	<u>2005</u>	<u>2004</u>
Tuition and fees	\$32,476	\$30,710
Room and board	<u>9,118</u>	<u>8,471</u>
Gross student revenues	41,594	39,181
Less financial aid:		
Sponsored	(8,374)	(7,894)
Un-sponsored	<u>(3,219)</u>	<u>(3,434)</u>
Net student revenues	<u>\$30,001</u>	<u>\$27,853</u>

“Sponsored” financial aid consists of funds provided by external entities, whereas “un-sponsored” financial aid consists of funds provided by the College.

10. Other Revenues:

Other revenues for the years ended June 30, 2005 and 2004 include approximately \$436,000 and \$428,000 of tuition payments for students at The Children’s School at Claremont McKenna College.

11. Institutional Support Fund Raising Expense:

Included in Institutional Support expenditures for the years ended June 30, 2005 and 2004 is approximately \$3,943,000 and \$3,622,000, respectively, of expenditures related to fund raising, exclusive of expenditures for Alumni Relations and Public Affairs & Communications.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

12. Release of Net Assets:

Matured annuity and life income agreements for the years ended June 30, 2005 and 2004 also include approximately \$937,000 and \$673,000, respectively, of releases to endowment within permanently restricted net assets.

13. 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 operating activities. Approximately \$19,446,000 and \$22,744,000 for the years ended June 30, 2005 and 2004, respectively, has been appropriated for operating activities and is reported in the Statement of Cash Flows as proceeds from the sale of investments in cash flows from investing activities.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

14. Endowment:

The net assets of the College include permanent endowment and funds functioning as endowment. Permanent endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized as provided for under the California Uniform Management of Institutional Funds Act. While funds functioning as endowment have been established by the Board of Trustees to function as endowment, any portion of such funds may be expended.

Changes in the College's endowment for the years ended June 30, 2005 and 2004 were as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Investment returns:		
Earned income net of reinvestments of \$358,000 and \$416,000, respectively	\$ 3,622	\$ 462
Change in realized and unrealized net appreciation of investments	<u>31,276</u>	<u>45,673</u>
Net investment return	34,898	46,135
Endowment returns distributed for operations	<u>(20,382)</u>	<u>(20,183)</u>
Net investment surplus	<u>14,516</u>	<u>25,952</u>
Other changes in endowed equity:		
Gifts	4,285	2,705
Other additions, net	<u>1,440</u>	<u>1,197</u>
Total other changes in endowed equity	<u>5,725</u>	<u>3,902</u>
Net change in endowed equity	20,241	29,854
Endowed equity, beginning of the year	<u>315,771</u>	<u>285,917</u>
Endowed equity, end of the year	<u>\$336,012</u>	<u>\$315,771</u>

At June 30, 2005 and 2004, endowed equity consists of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Contributions receivable, net of discount	\$ 1,582	\$ 1,588
Investments	<u>334,430</u>	<u>314,183</u>
Total endowed equity	<u>\$336,012</u>	<u>\$315,771</u>

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

15. Employee Benefit Plans:

The College participates with other members of The Claremont Colleges (Note 16) 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 \$1,843,000 and \$1,673,000, respectively.

The Claremont University Consortium administers a defined benefit plan (the "Plan") covering substantially all nonacademic employees of the College, along with those of the other Claremont Colleges. The Plan is funded in accordance with Employee Retirement Income Security Act of 1974 ("ERISA"). The benefits are based on a percent of each year's base compensation. Plan assets are invested primarily in a diversified group of equity and fixed-income securities, in an insurance company's separate and general accounts. At June 30, 2005 and 2004, the College's allocation of the net pension cost was approximately \$340,000 and \$418,000, respectively. The Plan was curtailed in the fiscal year ended June 30, 2004, subsequent to the Plan's measurement date. The impact of the curtailment is a reduction to the benefit obligation. Additional information on the Plan can be obtained from the 2004-2005 annual report of the Claremont University Consortium.

16. 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 which provides common student and administrative services, including certain central facilities utilized by all The Claremont Colleges. The costs of these services and facilities are shared by the members of the group. Amounts paid by the College for such services and use of facilities were approximately \$3,695,000 and \$3,456,000 for the years ended June 30, 2005 and 2004, respectively.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

17. Related Parties:

At June 30, 2005 and 2004, the College held investments totaling approximately \$43,135,000 and \$45,461,000, respectively, in certain limited partnerships in which certain members of the Board of Trustees are limited partners or are affiliated with management of the related partnerships.

In the opinion of management, there were no other material related-party transactions which require disclosure in the financial statements other than transactions with affiliated institutions which are disclosed in the notes to the financial statements and as noted below.

18. Commitments and Contingencies:

At June 30, 2005 and 2004, the College has investment commitments in limited partnerships as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Original commitments	\$ 72,000	\$ 69,000
Commitments paid	(52,606)	(45,194)
Remaining commitments	\$ <u>19,394</u>	\$ <u>23,806</u>
Number of partnerships	7	6

The College had a commitment on a contract to construct an administrative building totaling approximately \$3,111,000 at June 30, 2004. Construction was completed during the fiscal year ended June 30, 2005.

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.

The College is also a defendant in various legal actions incident to the conduct of its operations. The College's management does not expect that liabilities, if any, related to these legal actions would have a material effect on the College's financial position.

CLAREMONT MCKENNA COLLEGE

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2005 and 2004

19. Assets Whose Use is Limited:

The College has certain assets from the CEFA Series 2003 bond agreement whose use is limited to capital expenditures and debt service payments as outlined in the agreements. Assets whose use is limited were approximately \$214,000 and \$3,149,000 as of June 30, 2005 and 2004, respectively.

20. Facility Write Down:

The College initiated plans to build a phased athletic and recreation facility in October, 2001. Phase I of the construction was the building of a new recreation gym. In March 2004, the Board of Trustees decided to abandon the plan to construct a new recreation gym and instead approved the renovation of the existing gym for recreation and administration purposes and the building of a new sports arena. Accordingly, the College recognized a one-time charge in 2004 of \$613,000 related to the write-off of certain construction costs.