Whitman College
FINANCIAL STATEMENTS
June 30, 2004

WHITMAN COLLEGE

LeMaster & Daniels PLLC
Certified Public Accountants

WHITMAN COLLEGE
Peter W. Harvey, Treasurer
Walter R. Froese, CPA, Controller

WHITMAN COLLEGE
June 30, 2004

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Letter from the Treasurer and Controller

We are pleased to present the audited financial statements of Whitman College for the year ending June 30, 2004. Whitman enjoyed a strong financial year with a balanced budget and net assets increasing close to 14 percent. The increase is the result of an outstanding fundraising year with contribution revenue increasing 23 percent and a positive return on the College's endowment of 18.65 percent. Once again, over 50 percent of alumni gave to the annual fund.

Enrollment was strong, holding steady with 1,433 students attending fall of 2003, and completed applications from prospective students increasing by more than seven percent. Retention continues to be strong with graduation rates close to 85 percent.

The College finished Phase 2 of the Science Building renovations in September of 2003. While no additional major construction projects occurred during the year, the College plans to begin construction on a new fitness center in the spring of 2005, and is in the planning stages to renovate existing athletic facilities and build a new visual arts facility.

Much of Whitman's ongoing success is due to the hardworking members of the Whitman College staff and faculty. Their dedication to making Whitman an ever better institution is truly noteworthy. Thanks to all of our students, parents, governing board members, alumni and other friends of the College who contribute so much to this institution. Whitman would not be such an exceptional place of learning without the efforts of everyone associated with the College.

Peter W. Harvey, Treasurer  Walter R. Froese, Controller

September 2004

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# INDEPENDENT AUDITORS' REPORT

Board of Trustees
Whitman College
Walla Walla, Washington

We have audited the accompanying statements of financial position of Whitman College as of June 30, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 our audits provide 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 Whitman College as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

LeMaster & Daniels PLLC

Yakima, Washington
August 19, 2004



NAMED 2001 FIRM OF THE YEAR BY THE WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

WHITMAN COLLEGE
Statements of Financial Position
June 30, 2004 and 2003
(in thousands)

| | 2004 | 2003 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $5,645 | $13,182 |
| Accounts receivable, net | 343 | 419 |
| Inventory and prepaid expenses | 403 | 653 |
| Contributions and trusts receivable, net | 12,283 | 11,524 |
| Student loans, net | 3,481 | 3,417 |
| Deferred compensation | 1,694 | 1,388 |
| Investments | 332,953 | 279,366 |
| Land, buildings, equipment and collections, net | 77,928 | 76,659 |
| **Total assets** | $434,730 | $386,608 |
| **LIABILITIES** | | |
| Accounts payable | $3,077 | $3,990 |
| Salaries and wages payable | 2,164 | 2,079 |
| Deferred revenue and enrollment deposits | 864 | 791 |
| Split-interest contracts payable | 7,329 | 5,731 |
| Deferred compensation | 1,694 | 1,388 |
| Post retirement benefit obligation | 2,291 | 2,125 |
| Government grants payable | 3,267 | 3,201 |
| Bonds and mortgages payable | 25,670 | 25,685 |
| **Total liabilities** | 46,356 | 44,990 |
| **NET ASSETS** | | |
| Unrestricted net assets | 153,181 | 134,114 |
| Temporarily restricted net assets | 139,171 | 117,123 |
| Permanently restricted net assets | 96,022 | 90,381 |
| **Total net assets** | 388,374 | 341,618 |
| **Total liabilities and net assets** | $434,730 | $386,608 |

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

WHITMAN COLLEGE
Statement of Activities
For the year ended June 30, 2004
(in thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| **Revenues** | | | | |
| Tuition and fees | $36,209 | | | $36,209 |
| Room and board charges | 5,645 | | | 5,645 |
| Less, Institutional financial aid | (12,921) | | | (12,921) |
| Net student revenue | 28,933 | | | 28,933 |
| Government grants | 1,114 | | | 1,114 |
| Contributions | 2,426 | $2,019 | | 4,445 |
| Investment income, net | 672 | - | | 672 |
| Other | 2,547 | 6 | | 2,553 |
| **Net operating revenues** | 35,692 | 2,025 | | 37,717 |
| Endowment support to operations | 5,703 | 8,298 | | 14,001 |
| Net assets released from restrictions | 9,677 | (9,677) | | - |
| **Net resources funding operations** | 51,072 | 646 | | 51,718 |
| **Expenses** | | | | |
| Instruction | 16,793 | | | 16,793 |
| Academic support | 7,711 | | | 7,711 |
| Student services | 6,319 | | | 6,319 |
| Institutional support | 7,753 | | | 7,753 |
| Auxiliary expense | 9,084 | | | 9,084 |
| **Total operating expenses** | 47,660 | | | 47,660 |
| **Change in net assets from operating activities** | 3,412 | 646 | | 4,058 |
| **NONOPERATING ACTIVITIES** | | | | |
| Contributions | 1,163 | 3,520 | $4,473 | 9,156 |
| Investment income, net | 1,374 | 1,821 | 273 | 3,468 |
| Net gain on investments | 14,628 | 30,310 | 1,101 | 46,039 |
| Change in split-interest contracts payable | (609) | (1,408) | (262) | (2,279) |
| Other | 202 | 57 | 56 | 315 |
| Endowment support to operations | (5,703) | (8,298) | - | (14,001) |
| Net assets released from restrictions | 4,600 | (4,600) | - | - |
| **Change in net assets from nonoperating activities** | 15,655 | 21,402 | 5,641 | 42,698 |
| **Total change in net assets** | 19,067 | 22,048 | 5,641 | 46,756 |
| **Net assets at beginning of year** | 134,114 | 117,123 | 90,381 | 341,618 |
| **Net assets at end of year** | $153,181 | $139,171 | $96,022 | $388,374 |

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

WHITMAN COLLEGE
Statement of Activities
For the year ended June 30, 2003
(in thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| **Revenues** | | | | |
| Tuition and fees | $34,100 | | | $34,100 |
| Room and board charges | 5,304 | | | 5,304 |
| Less, Institutional financial aid | (12,213) | | | (12,213) |
| Net student revenue | 27,191 | | | 27,191 |
| Government grants | 890 | | | 890 |
| Contributions | 972 | $2,629 | | 3,601 |
| Investment income, net | 498 | - | | 498 |
| Other | 2,682 | 2 | | 2,684 |
| **Net operating revenues** | 32,233 | 2,631 | | 34,864 |
| Endowment support to operations | 5,909 | 7,962 | | 13,871 |
| Net assets released from restrictions | 8,646 | (8,646) | | - |
| **Net resources funding operations** | 46,788 | 1,947 | | 48,735 |
| **Expenses** | | | | |
| Instruction | 15,384 | | | 15,384 |
| Academic support | 7,444 | | | 7,444 |
| Student services | 5,968 | | | 5,968 |
| Institutional support | 7,481 | | | 7,481 |
| Auxiliary expense | 8,211 | | | 8,211 |
| **Total operating expenses** | 44,488 | | | 44,488 |
| **Change in net assets from operating activities** | 2,300 | 1,947 | | 4,247 |
| **NONOPERATING ACTIVITIES** | | | | |
| Contributions | 2,474 | 1,862 | $3,093 | 7,429 |
| Investment income, net | 3,439 | 2,294 | 1,204 | 6,937 |
| Net gain on investments | 138 | 536 | 238 | 912 |
| Change in split-interest contracts payable | (207) | (857) | (980) | (2,044) |
| Other | 239 | 44 | 76 | 359 |
| Endowment support to operations | (5,909) | (7,962) | - | (13,871) |
| Net assets released from restrictions | 4,249 | (4,249) | - | - |
| **Change in net assets from nonoperating activities** | 4,423 | (8,332) | 3,631 | (278) |
| **Total change in net assets** | 6,723 | (6,385) | 3,631 | 3,969 |
| **Net assets at beginning of year** | 127,391 | 123,508 | 86,750 | 337,649 |
| **Net assets at end of year** | $134,114 | $117,123 | $90,381 | $341,618 |

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

WHITMAN COLLEGE
Statements of Cash Flows
For the years ended June 30, 2004 and June 30, 2003
(in thousands)

| | 2004 | 2003 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $46,756 | $3,969 |
| Adjustments to reconcile change in net assets to net cash provided by or (used by) operating activities | | |
| Depreciation and amortization | 3,041 | 2,776 |
| Net (gain) or loss on investments | (46,039) | (912) |
| Change in value of split-interest contracts | 2,279 | 2,044 |
| Restricted contributions | (6,184) | (6,939) |
| Gifts of securities and investment real estate | (2,746) | (1,546) |
| Changes in operating assets and liabilities | | |
| Receivables, inventory and prepaid expenses | 327 | 222 |
| Payables, deferred revenue and student deposits | (688) | (2,114) |
| Retiree medical obligation | 166 | 171 |
| Net cash used by operating activities | (3,088) | (2,329) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of investments | (95,328) | (48,193) |
| Sales of investments | 86,012 | 54,448 |
| Purchases of land, buildings, equipment and collections | (4,316) | (12,146) |
| Payments received on notes and student loans | 587 | 681 |
| Disbursements of notes and student loans | (625) | (668) |
| Net cash used by investing activities | (13,670) | (5,878) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Principal paid on mortgages | (39) | (36) |
| Split-interest contract payments | (1,857) | (1,782) |
| New split-interest contracts issued | 4,933 | 5,153 |
| Contributions restricted to long-term investment and plant | 6,184 | 6,939 |
| Net cash provided by financing activities | 9,221 | 10,274 |
| Net change in cash and cash equivalents | (7,537) | 2,067 |
| Cash and cash equivalents at beginning of year | 13,182 | 11,115 |
| Cash and cash equivalents at end of year | $5,645 | $13,182 |
| Cash paid for interest | $1,549 | $1,552 |

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

**Nature of operations** - Whitman College is an independent, co-educational, non-sectarian, residential, liberal arts and sciences, undergraduate college founded in 1883. The student body is drawn from across the United States and many other countries, however, they are predominantly from the western United States.

## 1. Summary of significant accounting policies and basis of presentation:

**Accounting basis** - The financial statements of Whitman College (the College) have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

**Cash and cash equivalents** - The College considers cash and cash equivalents to be cash in banks and highly liquid investment securities with an original maturity date of 90 days or less, except when held in accounts under the direction of external investment managers. From time to time the cash balances maintained by the College at various depository and brokerage institutions are in excess of federally insured limits.

**Inventory** - Inventories are valued at the lower of cost (retail method) or market.

**Land, buildings, equipment and collections** - Land, buildings, building improvements, equipment, and collections are capitalized at cost, or if donated at fair market value on date of the gift. All such depreciable assets are stated net of accumulated depreciation, which is computed on a straight-line basis over the estimated useful lives of the assets.

**Split-interest agreements** - The College has legal title to certain annuity and life income agreements subject to life interests of beneficiaries composed predominantly of charitable remainder annuity trusts, charitable remainder uni-trusts and perpetual trusts held by third parties. The contracted payments to the beneficiaries take precedence over any financial claims upon the College.

The College uses the actuarial method of recording annuity and life income contracts and agreements where the beneficiary of the agreement is guaranteed annual amounts either by specified amounts or percentages of the value of the trusts. The account is credited with investment income and gains and is charged with investment losses and payments to beneficiaries. Actuarial gains and losses are adjusted annually against the liability account. The liability is based on the present value of estimated future payments discounted at rates between 4.0% and 8.4% either over specified periods or lives estimated according to IRS mortality tables. No obligation has been recorded for contracts that do not guarantee a payment amount.

At June 30, 2004 and 2003, total assets held by the College under split-interest agreements amounted to $28,693,000 and $27,231,000 respectively, and of those totals $25,589,000 and $25,342,000 are included in investments restricted for donor purposes respectively.

**Net asset classifications** - Permanently restricted net assets are the net value of contributions received or pledged that a donor has directed to be maintained as an endowment, the earnings of which are to be used as the donor has specified. Temporarily restricted net assets are the net value of contributions received or pledged that are subject to donor-imposed stipulations requiring either the passage of time or some action by the College. Unrestricted net assets are not subject to donor-imposed restrictions.

**Risks and uncertainties** – The investments of the College are exposed to various risks such as interest rate, market and credit risks. The College seeks to mitigate such risks through prudent investment strategies such as diversified asset classes and investment managers. The values reported in the financial statements are reasonably expected to vary substantially from year to year and such changes could have a material effect upon the financials statements.

**1. Summary of significant accounting policies and basis of presentation - continued:**

**Federal tax status** - Whitman College is a qualified not-for-profit organization under Internal Revenue Code Section 501(c)(3) and as such, is generally exempt from federal taxation of income and contributions to the College are deductible by the donor for federal income tax purposes.

**Statement of activities, operating activities** – The College defines operations as activities that are closely related to the educational and residential mission as well as any necessary ancillary activities. The endowment's support of operations is included as revenue in the operating section and is shown as an expense in the nonoperating section

**Revenue and expense recognition** - Revenues are reported as increases to unrestricted net assets, unless donor restrictions are attached to contributions. Conditional promises to give are recognized as gift income when the donor-imposed conditions are substantially met. When temporary restrictions are met, either by the passage of time or purpose has been fulfilled, the net assets are released to the unrestricted category. Contributions of cash or assets given for the purpose of acquiring long-lived assets are under temporary restrictions until the assets are placed into service. Contributions restricted by the donor to the acquisition of buildings or lands are released in the year the asset is placed in service. Expenses decrease unrestricted net assets.

**Expense allocation** – The cost of operations and maintenance of the physical plant including depreciation and interest costs related to plant has been allocated to functional expense categories based on square footage dedicated to each function. The cost associated with information technology is split between academic and institutional support based on actual expense.

**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, liabilities and the disclosure of contingencies as well as revenues and expenses. Actual results could differ from those estimates.

**Reclassifications** - Certain reclassifications of prior year data have been made to conform to the presentation of current year financial statements.

| **2. Receivables (in thousands):** | **2004** | **2003** |
|---|---|---|
| Student accounts receivable | $322 | $321 |
| Allowance for doubtful accounts | (26) | (5) |
| | 296 | 316 |
| Other receivables | 47 | 103 |
| Total accounts receivable, net | $343 | $419 |

**Contributions and trusts** - Revenues related to promises to give are recorded when pledged at the net present value of the expected future inflows of cash. At June 30, 2004 and 2003 these receivables were net of an allowance for uncollectible pledges of $80 and $87, respectively.

The following table details the estimated collection of $15,971 of contributions and trusts receivable discounted to net present value:

| | | |
|---|---|---|
| For the years ending: | June 30, 2005 | $3,141 |
| | June 30, 2006 | 455 |
| | June 30, 2007 | 280 |
| | June 30, 2008 | 140 |
| | June 30, 2009 | 108 |
| | Thereafter | 8,159 |
| | Total | $12,283 |

2. Receivables (in thousands) continued:

Contribution and trust receivables are comprised of the following balances:

| | 2004 | 2003 |
|---|---|---|
| Temporarily restricted - operations | $1,623 | $1,502 |
| Temporarily restricted - plant projects | 2,157 | 2,342 |
| Permanently restricted - endowment | 8,503 | 7,680 |
| Total | **$12,283** | $11,524 |
| **Student loans** - are net of an allowance for doubtful accounts of: | $89 | $89 |

**3. Investments (in thousands):**

By policy, the College manages its investments to maintain a diversified portfolio. Marketable securities are stated at fair market value; all other purchased investments are stated at cost. Investments of real estate received by gift are stated at fair market value on the date of gift. The fair value of investment securities is based on quoted market prices of these or similar investments if available. The investments at June 30, 2004 and 2003, are as follows:

| | 2004 | 2003 |
|---|---|---|
| Marketable securities - at market | | |
| Equities | $246,619 | $206,448 |
| Corporate bonds | 49,335 | 37,824 |
| Commingled funds | 13,235 | 13,834 |
| Total marketable securities | 309,189 | 258,106 |
| Real estate investments - at cost | | |
| Investment real estate | 12,936 | 11,968 |
| Accumulated depreciation | (1,063) | (1,014) |
| Net real estate investments | 11,873 | 10,954 |
| Notes and mortgages receivable – at cost | 31 | 57 |
| Funds held in trust by others – at market | 11,860 | 10,249 |
| Total investments | $332,953 | $279,366 |
| Investments according to purpose | | |
| Investments restricted for donor purposes | $222,606 | $196,228 |
| Investments designated for long-term purposes | 10,213 | 12,558 |
| Other investments | 100,134 | 70,580 |
| Total investments | $332,953 | $279,366 |

The estimated fair value of real estate at June 30, 2004 and 2003, amounted to $15,120 and $14,661, respectively.

The College is committed to invest a total of $34,280 in nine limited partnerships. At June 30, 2004, future payments necessary to meet those commitments totaled $14,617.

**Endowment** – The College's endowment comprises the majority of investments shown above. The College uses a "total return" approach to managing endowment investments and without regard to actual earnings spends five percent of the fair market value of the endowment averaged over 12 quarters to support the annual operating budget.

**3. Investments (in thousands) continued:**

| **Endowment continued:** | **2004** | **2003** |
|---|---|---|
| Beginning balance | $250,329 | $247,944 |
| Endowment return | | |
| Ordinary income | 4,853 | 6,181 |
| Net income | 41,666 | 803 |
| Investment expenses | (1,015) | (1,262) |
| Net endowment return | 45,504 | 5,722 |
| Contributions | 2,997 | 4,838 |
| Other additions | 2,565 | 5,710 |
| Distribution to the operating budget | (14,001) | (13,885) |
| Ending balance | $287,394 | $250,329 |

| **4. Land, buildings, equipment and collections (in thousands):** | **2004** | **2003** |
|---|---|---|
| Buildings | $96,708 | $88,889 |
| Accumulated depreciation | (27,539) | (25,789) |
| | 69,169 | 63,100 |
| Construction in progress | 481 | 5,647 |
| Land | 6,251 | 5,838 |
| Net book value of land and buildings | 75,901 | 74,585 |
| Equipment | 2,878 | 2,588 |
| Accumulated depreciation | (1,719) | (1,368) |
| Net book value of equipment | 1,159 | 1,220 |
| Collections | 868 | 854 |
| Total land, buildings, equipment, collections, net | $77,928 | $76,659 |

Commitments for future construction projects were $499 as of June 30, 2004. Management estimates the current replacement value of buildings and infrastructure to be $193,038.

**5. Deferred compensation:**

Certain employees of the College at their option may elect to defer a portion of their wages. The deferred compensation is placed in a separate fund, which is considered College property until the College approves a withdrawal by the employee due to an emergency or retirement. Prior to withdrawal the College invests the funds through an agent that also performs administrative functions. The participants are general creditors for these funds so the invested asset is offset by a corresponding liability. The College does not record transaction activity as revenue or expense. The plans generally were closed to new participants in 1988 and investments are reported at fair market value.

| **6. Bonds and mortgages payable (in thousands):** | **2004** | **2003** |
|---|---|---|
| Bonds issued through Washington Higher Education Facilities Authority (WHEFA) Series 1999 Revenue Bonds | $25,710 | $25,710 |
| Mortgages payable | 557 | 595 |
| | 26,267 | 26,305 |
| Unamortized discount and issuance costs | (597) | (620) |
| Total | $25,670 | $25,685 |

**6. Bonds and mortgages payable (in thousands) continued:**

The WHEFA Series 1999 bonds were issued October 13, 1999, to finance several major building projects. The bonds mature on October 1, 2029. Payments of interest at 5.88 percent of face value of $25,710 are due on a semi-annual basis. The College has agreed to maintain unrestricted net assets of at least 10 million dollars until maturity.

The College also has three mortgage notes, payable at interest rates between 5 and 10 percent, the last maturing in 2014. The fair value of bonds and mortgages payable at June 30, 2004, approximates $20,327 based on discounting the future cash flows through the scheduled maturities. The following table details the approximate principal payments required for these mortgages, which are secured by real estate investment properties.

| | | |
|---|---|---|
| For the years ending: | June 30, 2005 | $42 |
| | June 30, 2006 | 44 |
| | June 30, 2007 | 48 |
| | June 30, 2008 | 51 |
| | June 30, 2009 | 54 |
| | Thereafter | 25,431 |
| | Total | $25,670 |

**7. Post-retirement benefits (in thousands):**

The College provides post-retirement health benefits for all employees who were full- time employees hired prior to June 30, 1992, and retire after reaching a specified age with 10 years of service. Employees terminating prior to meeting age and length of service eligibility are not covered under the program. A small number of the currently retired and fully eligible active plan participants under the program are participating in the College's regular health insurance program or modified cost reimbursement under Medicare Supplement. All other participants are limited to the cost of the Medicare supplement at the rate established July 1, 1992, adjusted annually by not more than five percent.

| | **2004** | **2003** |
|---|---|---|
| Post-retirement benefit cost | | |
| Benefits earned | $61 | $60 |
| Interest accrued on benefits earned in prior years | 215 | 207 |
| Amortization of transition obligation | 47 | 47 |
| Benefit cost | $323 | $314 |
| Benefits paid | $158 | $143 |
| Post-retirement benefit obligation | | |
| Current retirees | $1,228 | $1,166 |
| Fully eligible active plan participants | 38 | 38 |
| Other active plan participants | 1,426 | 1,380 |
| Total accumulated benefit obligation | 2,692 | 2,584 |
| Net amount of un-amortized transition obligation and actuarial losses | (401) | (459) |
| Net obligation recognized | $2,291 | $2,125 |
| Funds internally reserved for obligation | $2,502 | $1,909 |
| College contributions to the reserve | $166 | $153 |

**7. Post-retirement benefits (in thousands) continued:**

The College utilized an eight percent discount rate to determine the actuarial present value of the obligation, and a five percent health care cost trend rate for both years. A one percentage point increase in each year of the annual trend
rate would increase the accumulated obligation by approximately $310, and increase the benefit cost components by approximately $36, for the year.

The College has not established a separate trust to administer the program and as a result the plan is not funded under the definition as set forth in the SFAS No. 106 "Employers' Accounting for Post-retirement Benefits Other Than Pensions." The College has set aside funds internally as detailed above.

**8. Retirement plan:**

The College participates in a qualified, defined contribution pension plan, which is administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund. The plan covers substantially all full-time employees and is funded by employee and College contributions, which are based on levels of compensation. The College contributions to the plan at June 30, 2004 and 2003, amounted to $1,794,000 and $1,757,000 respectively.

| **9. Net assets (in thousands):** | 2004 | 2003 |
|---|---|---|
| Unrestricted: | | |
| Operations and reserves | $9,821 | $6,210 |
| Plant facilities | 52,463 | 44,793 |
| Board restricted or quasi endowments | 89,018 | 79,789 |
| Split-interest agreements | 1,879 | 3,322 |
| Total unrestricted net assets | $153,181 | $134,114 |
| Temporarily restricted: | | |
| Restricted for specific purposes | $16,686 | $16,698 |
| Endowments | 112,489 | 89,736 |
| Split-interest agreements | 9,996 | 10,689 |
| Total temporarily restricted net assets | $139,171 | $117,123 |
| Permanently restricted: | | |
| Endowments | $86,968 | $83,463 |
| Split-interest agreements | 9,054 | 6,918 |
| Total permanently restricted net assets | $96,022 | $90,381 |

**10. Commitments:**

In order to provide liability insurance coverage the College has taken an equity position in the College Liability Insurance Company, Ltd. (CLIC). Part of CLIC's capital is a $2,000,000 standby letter of credit for which the College is contingently liable on a pro rata basis. In the event the losses of CLIC exceed its capital and secondary coverage, the maximum contingent liability to the College is approximately $128,000 for the year ended June 30, 2004.

**11. Fair value of financial instruments:**

Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments, requires that the College disclose estimated fair values for its financial instruments whether or not recognized in thestatement of financial position, for which it is practicable to estimate that value. Fair value approximates carrying value for cash and cash equivalents, investments, accounts receivable, contributions and trusts receivable, accounts payable and other liabilities. A reasonable calculation of discounted future cash flows from student loan receivables could not be made due to the variability of repayment terms inherent in these loans.

**12. Net tuition revenues (in thousands):**

Funded financial aid is financial aid expense funded by either institutional endowment or direct gifts from donors. The unfunded portion is covered by the College's general operating funds.

| | 2004 | 2003 |
|---|---|---|
| Tuition and fees | $36,209 | $34,100 |
| Less institutional financial aid | | |
| Funded | 5,354 | 5,105 |
| Unfunded | 7,567 | 7,108 |
| | 12,921 | 12,213 |
| Net tuition revenue | $23,288 | $21,887 |

**13. Net investment income:**

The costs of money manager and custodial banking fees as well as the costs of farm and rental property operations total $1,378,000 for 2004 and $1,528,000 for 2003 and are shown net of investment return.

| 14. **Expenses (in thousands):** | **2004** | **2003** |
|---|---|---|
| Natural classification: | | |
| Salaries, wages and benefits | $27,838 | $26,647 |
| Services | 6,314 | 5,447 |
| Supplies | 4,345 | 4,303 |
| Communications | 1,648 | 1,664 |
| Travel | 1,737 | 1,729 |
| Utilities | 1,250 | 1,200 |
| Interest expense | 1,510 | 745 |
| Depreciation | 3,018 | 2,753 |
| Total expenses | $47,660 | $44,488 |
| Fund-raising costs | $1,479 | $1,380 |

| **15. Release of temporarily restricted net assets (in thousands):** | **2004** | **2003** |
|---|---|---|
| Institutional financial aid | $5,092 | $4,979 |
| Functional expenses, primarily instruction and academic support | 4,585 | 3,667 |
| Total release for operations | 9,677 | 8,646 |
| Matured life contracts | 2,310 | 2,187 |
| Other primarily plant related | 2,290 | 2,062 |
| Total release | $14,277 | $12,895 |

**16. Restatement (in thousands):**

A certain donor gift was booked as permanently restricted endowment when, in fact, the donor had stipulated that the gift could be put to a variety of uses other than endowment. Consequently, the beginning balances of net assets for the fiscal year ended June 30, 2003, have been restated in the following manner:

| | |
|---|---|
| Temporarily restricted net assets | |
| Beginning balance | $121,670 |
| Restatement | 1,838 |
| Balance as restated | $123,508 |
| | |
| Permanently restricted net assets | |
| Beginning balance | $88,588 |
| Restatement | (1,838) |
| Balance as restated | $86,750 |

**17. Subsequent event (in thousands):**

Because of the current low interest rate environment College management is considering a debt refinancing through Washington Higher Education Facilities Authority (WHEFA) in order to lower debt service costs. If the refinancing goes forward the net proceeds from the redemption would be held by a counterparty in escrow. The counterparty would use the proceeds to; refund the existing $25,710 in WHEFA Series 1999 bonds at their first optional redemption date of October 1, 2009, as well as make all scheduled interest payments through that date. This new issue of approximately $29,000 secured by College revenues, would originate in November of 2004 and mature in October 1, 2029, the same maturity date as the Series 1999 bonds.