Claremont McKenna College

2013–2014 Financial Report

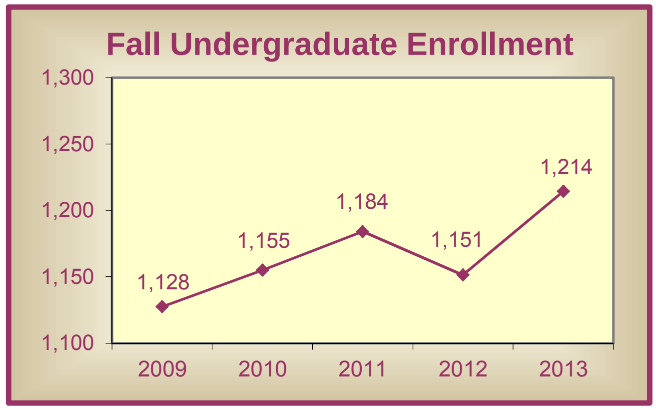
CLAREMONT MCKENNA COLLEGE
ANNUAL FINANCIAL REPORT

2014 and 2013

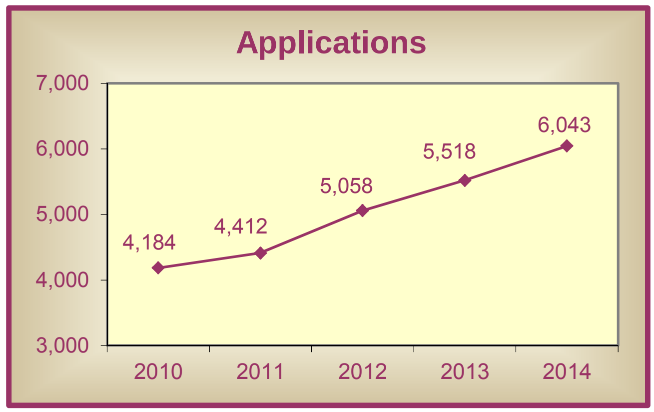
CONTENTS

Financial Highlights

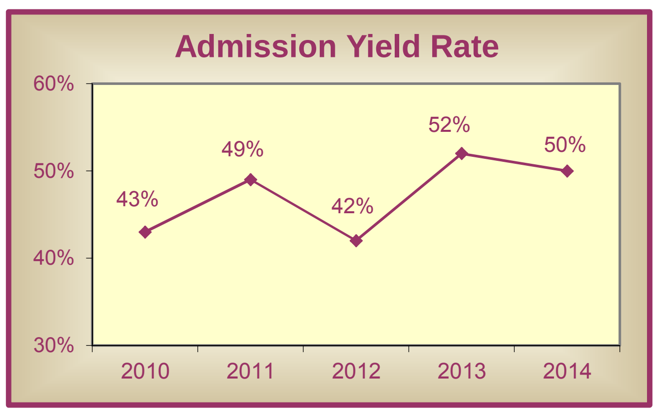
- Fall 2013 FTE undergraduate enrollment in Claremont reflects an increase from the prior year due to a higher than anticipated Freshman admission yield. The average FTE undergraduate enrollment for the year (Fall and Spring) was 1,213. FTE undergraduate enrollment for the 2013-14 fiscal year, including off campus study-abroad programs, was 1,300.



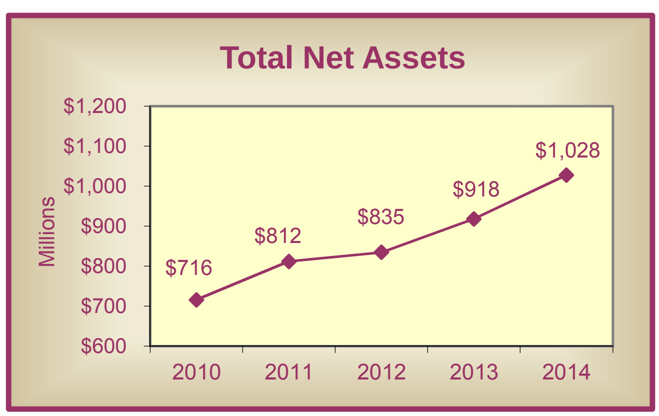
- Freshman applications for admission in the Fall of 2014 were 6,043, an all-time high for CMC. Applications for the last five years have averaged 5,043—approximately fourteen times more applications than openings in the entering class.



- The yield rate decreased slightly to 50% for the Fall of 2014. The total number of new freshmen entering the College in Fall of 2014 was 327 students.

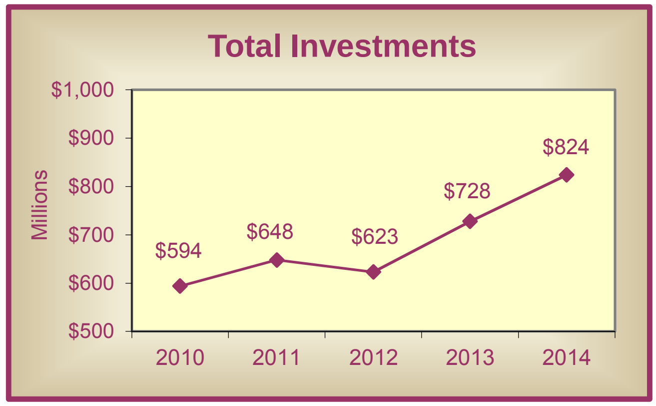


- Total net assets increased by 12% to just over $1 billion primarily driven by a combination of changes in private gifts and gains on investments.

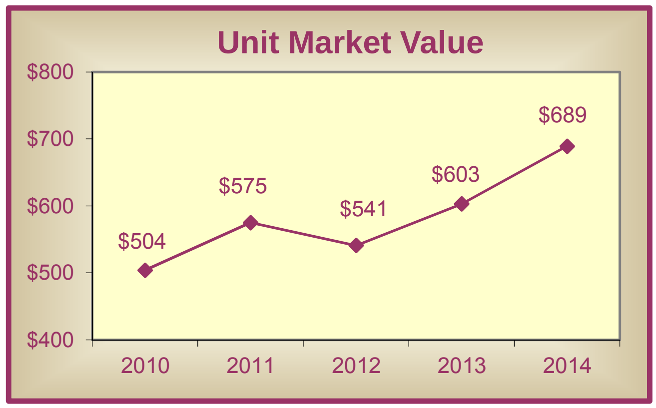


Financial Highlights

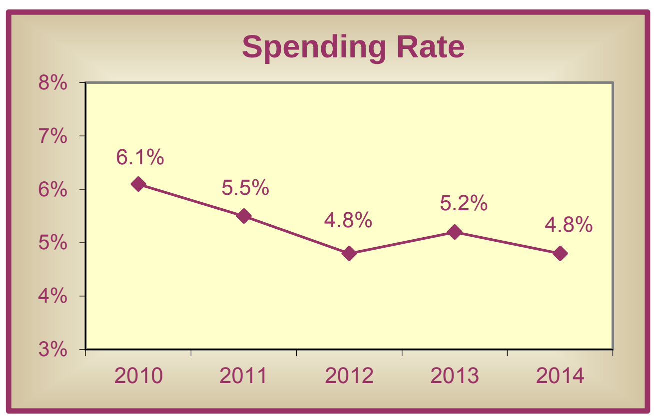
- Total investments increased by 13.2% in 2014, after fees and spending for operations. The net increase was primarily attributable to new gifts and realized and unrealized gains.



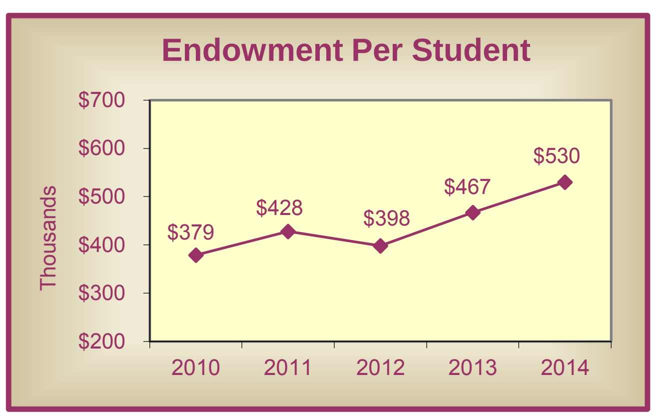
- The unit market value increased by 14.3%. Unit market value reflects general market performance after spending for operations.



- The spending rate (spending amount per unit divided by unit market value at the beginning of the year) decreased as a result of the increase in the unit market value by the end of fiscal year 2013, which became the beginning of the year value for 2014.

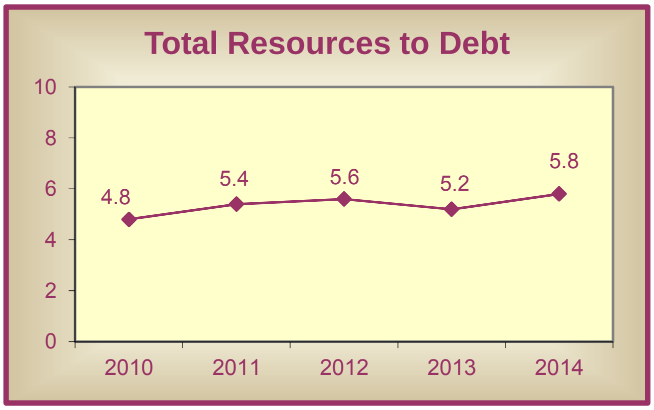


- Endowment per student increased as a result of the increase in the market value of the endowment as of June 30, 2014. Total endowment at June 30, 2014, was $699 million.

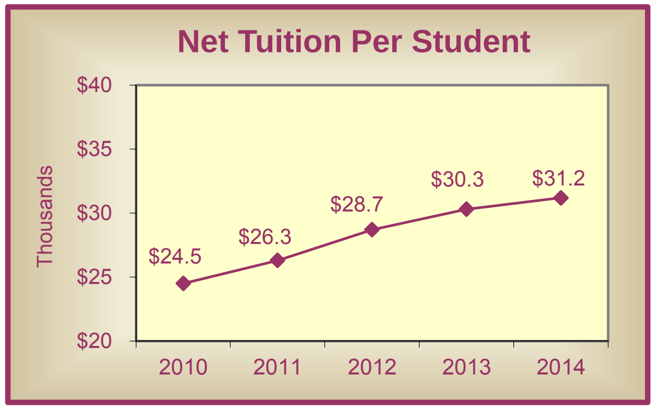


Financial Highlights

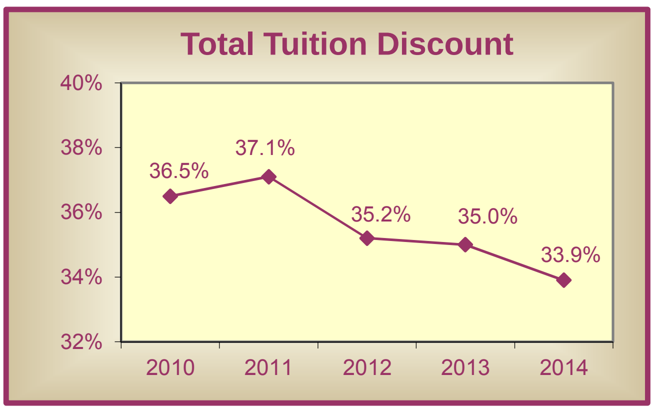
- Total resources to debt increased in 2014 as a result of an increase in net assets. CMC's ratio of 5.8 is lower than the 2013 median value of 6.1 for Moody's Aa small institutions (enrollments typically under 3,000 FTE). Moody's Investors Services assigned a rating of Aa2 with a stable outlook to CMC's Series 2012 Revenue Bonds.



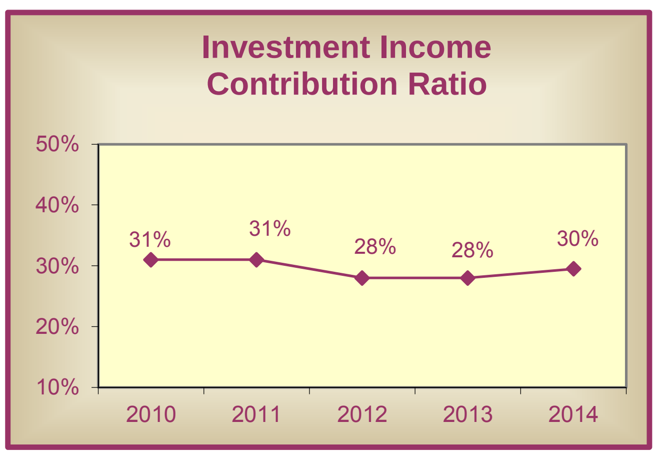
- CMC experienced growth of 3% in net tuition per student which was approximately equivalent to the rate of increase in gross tuition. This dollar level places CMC higher than the 2013 median net tuition per student of $26,707 for Moody's Aa small institutions.



- The total tuition discount (financial aid divided by tuition and fees revenues) decreased as part of a planned multi-year reduction. CMC's discount is lower than the 2013 median discount of 39.0% for Moody's Aa small institutions.

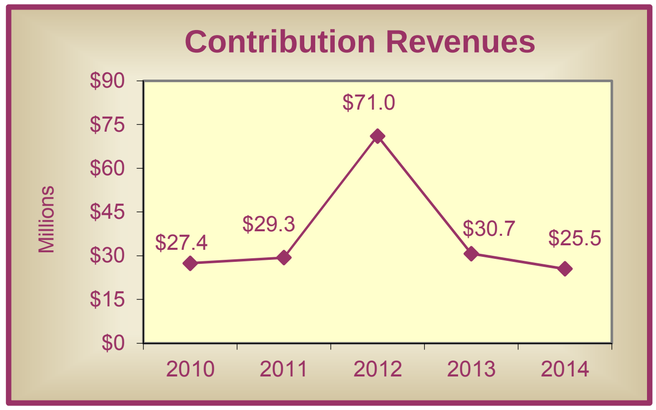


- CMC's endowment and a prudent spending policy produce sufficient investment income to make a significant contribution toward covering the operational costs of a CMC education. The investment income contribution ratio has remained relatively flat over the past five years.

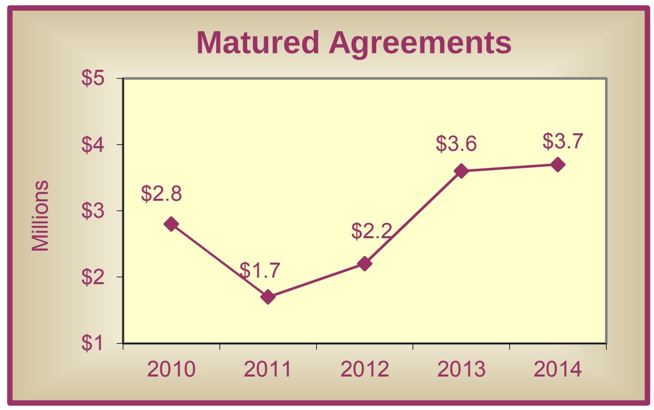


Financial Highlights

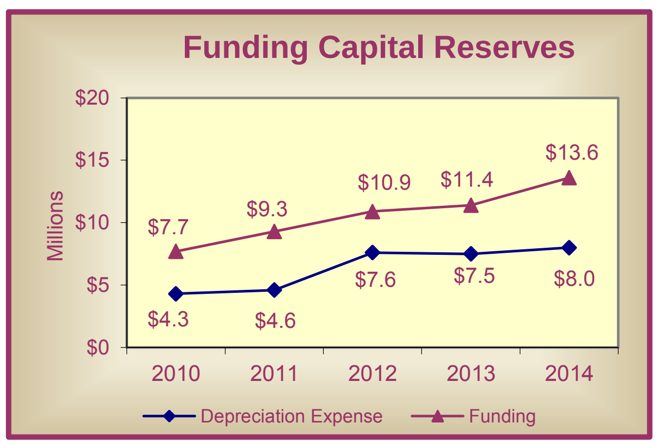
- Private gifts and grants reported by the Development Office were $42.4 million for the 2014 fiscal year. After actuarially adjusting the deferred gifts and adjusting for unconditional promises to give, total contribution revenues finished the fiscal year at $25.5 million.



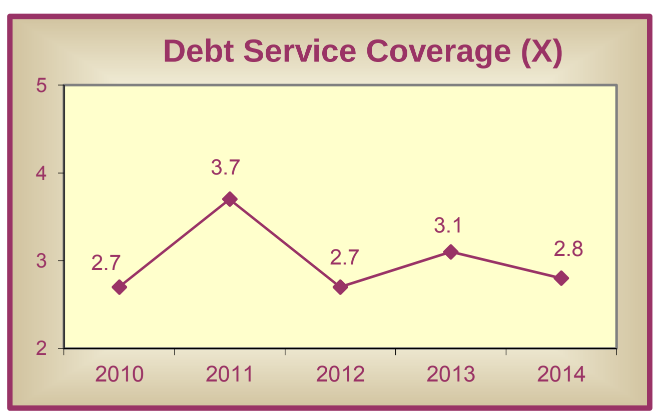
- Although unpredictable from year to year, matured annuity and life income agreements continue to provide significant resources to the College's endowment and operating funds.



- CMC continues its policy of funding capital reserves for repairs, life cycle replacements, and modernization of existing facilities. The calculation of annual set-asides into capital reserves was changed in 2013 to more accurately reflect replacement values. The funding of capital reserves has exceeded the amount of depreciation expense recorded in the financial statements over the past several fiscal years.



- Debt service coverage (net operating revenues plus interest and depreciation expense divided by annual debt service) decreased in 2014 due to a decrease in net operating revenue and an increase in annual debt service. CMC's ratio is consistent with the 2013 median value of 2.82 for Moody's Aa small institutions.



CLAREMONT McKENNA COLLEGE

Office of the Treasurer

October 22, 2014

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

Ladies and Gentlemen:

The fiscal year that began on July 1, 2013, also marked the beginning of a new era of leadership for Claremont McKenna College (CMC). The College officially welcomed Hiram Chodosh as the College's fifth president since its founding in 1946. The Board of Trustees also named David Mgrublian, CMC Class of 1982, as its new Chair at the end of the fiscal year. Fresh off the completion of a successful $635 million capital campaign and working with the College community, President Chodosh and the Board of Trustees spent much of this last year identifying the highest priorities for the College for the next few years and beyond. A major one is financial aid and scholarships, under a new fundraising effort, called *The Student Imperative*. The details of *The Student Imperative* will be developed over the next year to enhance the value of the CMC student experience and to further address student affordability of a CMC education.

The campus continues its physical transformation with the demolition of Ducey Gymnasium and groundbreaking for the new Roberts Pavilion last spring. The new facility will hold up to 2,000 people by using the arena floor for College-hosted major events, and will accommodate fitness and recreational uses for CMC students as well as varsity competitions in the CMS Athletic program. Completion is expected in the spring of 2016.

The investment portfolio is the largest asset of the College, and is closely monitored by the Board's Investment Committee. The return on CMC's endowment for the year was 19.9%, net of fees. CMC's one-year return is tracking near the top of the Cambridge Associates database of preliminary returns for college and university investment pools and is in the top decile of the same database over the trailing three-, five-, and ten-year periods. The investment returns, net of spending for operations, accompanied by generous new gifts to the endowment, account for an increase in total investments of 52% over the past five years.

The spending rate dropped to 4.8% after reaching a high of 6.1% in 2010 in the aftermath of the economic downturn in 2008. In response to the changing economic conditions and expectations of future earnings, the Board of Trustees adopted changes to the College's spending policy in October 2012, to more conservatively smooth the effects of short-term investment results on the operating budget, and to reduce the spending rate in future years without immediate drastic reductions in operations. The changes have been partially implemented, and should be fully implemented with the 2015-16 budget year, barring any extreme changes in the financial markets.

The Admission Office recruited another impressive group of freshmen for Fall 2014. The number of applicants for the class of 2018, recruited during the 2013-14 fiscal year, continued to

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Member of The Claremont Colleges

climb, setting another record at 6,043 applications received. This was 9.5% higher than the prior record for the College set in 2012-13, and 19% higher than applications in the two-year period 2012-14. Of the 6,043 applications received, 10.8% were accepted (admission rate), and 50.2% were enrolled (yield rate), marking CMC as one of the most selective liberal arts colleges in the country. The median SAT score was 2160. Only 32% of our 327 enrolled freshmen are from California; another 46% represent domestic students outside of California and 22% are international students representing 19 countries. The average FTE undergraduate enrollment in Claremont for the 2013-14 fiscal year jumped to 1,214 from 1,151 students in the prior year, driven by the higher enrollment yields in the 2013 entering freshman class. As a result, the Board of Trustees approved construction of additions to the Mid-Quad residence halls and agreed to allow enrollment in Claremont to remain at approximately 1,200 students as we move into the Fall of 2014 and beyond. The additions will be ready for occupancy next fall, and will add over 100 new beds to the campus housing inventory.

Net tuition per student continued to increase while the total tuition discount dropped. These trends are in line with a multi-year plan to balance the tuition discount at a sustainable level while also keeping tuition increases as low as possible. The College continues to maintain its need-blind admission policy and meet-all-need financial aid policy, and confirmed the preservation of these policies as a high priority. After five years of providing need-based financial aid packages with no student loans, the College made the difficult decision, driven by the economic environment, to reinstitute packaged loans beginning with the incoming class of 2014. CMC's last campaign provided several new gifts for both need-based and merit scholarships, which are reflected in the calculation for the total tuition discount. Further development of The Student Imperative is expected to provide additional support for financial aid.

Statements of Financial Position

Total assets at the end of June 30, 2014, increased 9.7% over the prior year, primarily attributable to increases in investments and plant facilities. Contributions receivable continued to decrease as cash payments of multi-year pledges made during the last campaign were received. Total liabilities increased primarily as a result of accounts payable on large construction projects at the end of the year. The College signed a loan agreement issued through the California Municipal Finance Authority that will allow monthly draws over the next two years, up to $25 million, to finance construction projects. The majority of this loan will be drawn down over the next year for construction of the Mid-Quad residence hall additions.

The increase in plant facilities, net of depreciation, from 2013 to 2014 included work in progress on major renovations of five residence halls in the Mid-Quad residential precinct. The first phase of renovations, including those in Phillips, Beckett, and Berger Halls, were completed in August 2013. The second phase of renovations, covering Marks and Benson Halls, and a 28-bed addition to Beckett Hall was completed in August 2014. A three-story addition to include 16 new beds in Marks Hall and a more significant annex connecting Berger and Benson Hall, referred to as "Claremont Hall," were begun this summer. Approximately 105 new beds will be added to this area of campus by August 2015. With input from a student focus group, the design includes new lounges, new patios, a courtyard, a community kitchen, and new music practice space in the Marks basement. Other summer projects included a renovation of the first floor of Heggblade Center, which houses the Dean of Students and the Center for Global Education, and creation of a new Student Event Plaza on the old tennis courts at the east end of campus for student social events. New signage and lighting programs are also being rolled out over multiple years as the budget allows.

Statement of Activities

The statement of activities provides greater detail of the changes in net assets during the fiscal year. Net assets increased 11.9% from the prior year, driven by a combination of realized and unrealized gains on investments and receipt of new private gifts. Total revenues decreased slightly from the prior year, directly related to receipt of an unusually large gift in 2013. Enrollment was higher than expected, creating an increase in net student revenues of 7%, and spending policy income was 6.8% higher than the prior year as a result of the addition of new gifts to the endowment.

Total operating expenses increased by 6% from the prior year, though there were fluctuations in increases of the various categories of expenses. Research costs increased 11.2% related to greater activity funded by federal grants and by CMC's internal research institutes. Student services increased 8.7% as a result of the write-off of the remaining undepreciated cost of Ducey Gym upon its demolition. As part of The Student Imperative, President Chodosh challenged the student body to commit to high standards for personal and social responsibility, and began investing in new initiatives aimed at educating and cultivating responsible decision-making through enhancements to the intellectual and residential lives of our students.

Positive performance in the financial markets accounted for big swings in the various categories of changes in net assets. In addition to realized and unrealized gains on investments, actuarial adjustments for liabilities in the College's gift annuity program and changes in the liability for the frozen staff retirement plan are driven by market performance.

A recently approved methodology for funding capital reserves was fully implemented in 2014. An annual transfer of unrestricted net assets is budgeted and transferred to the capital reserves based on data reflecting known repair needs and projecting likely modernization of space when buildings are renovated. This strategy allows CMC to protect its recent investments in facilities. The plan is updated annually and reviewed by the Buildings & Grounds Committee of the Board of Trustees.

Statements of Cash Flows

Net cash flows decreased by over $900,000 in fiscal year 2013. The net cash used in operating activities of almost $13.6 million was offset by net cash provided by financing activities of $11.7 million and by investing activities of over $900,000. Cash outside of the investment pool continues to be managed using a multi-tiered structure based on the timeline of the expected use of cash, particularly related to the needs for capital projects, and is reviewed regularly by the Finance and Investment Committees of the Board of Trustees.

Summary

The fiscal year started with many changes, most notably in the leadership roles, and ended in an excellent place, both financially and programmatically. New thoughts and ideas centered on the student experience and affordability of a CMC education. While financial challenges from the economic downturn in 2008 remain, investment performance and development results continued to be strong, admission statistics were better than ever, and continued improvements to the physical campus were well received.

The President and Board of Trustees enthusiastically endorse the highest priority as providing an excellent educational experience for all students at CMC. In his inspiring inaugural address, President Chodosh offered challenges and opportunities for the CMC community to think about why we are here and to remember the vision of our founders of building leaders through the liberal arts in action. The CMC community is committed to the growth of our students in every way and to developing the next great generation.

Respectfully submitted,

Robin J. Aspinall

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

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
Claremont McKenna College

Report on the Financial Statements

We have audited the accompanying financial statements of Claremont McKenna College, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Claremont McKenna College as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Los Angeles, California
October 22, 2014

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CLAREMONT MCKENNA COLLEGE
STATEMENTS OF FINANCIAL POSITION

June 30, 2014 and 2013
(in thousands)

	2014	2013
ASSETS		
Cash	$ 732	$ 1,659
Accounts and notes receivable, net (Note 2)	16,199	16,997
Prepaid expenses and deposits	6,373	5,501
Contributions receivable, net (Note 3)	196,577	206,175
Beneficial interest in trusts (Note 3)	6,219	5,860
Investments (Note 4)	823,856	727,983
Plant facilities, net (Note 6)	212,719	186,499
Total assets	$ 1,262,675	$ 1,150,674
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 17,818	$ 16,124
Funds held in trust for others	3,128	2,853
Deposits and deferred revenues	1,752	1,289
Staff retirement liability	746	1,196
Life income and annuities payable (Note 9)	44,046	43,276
Capital lease obligation (Note 7)	983	1,072
Bonds and notes payable (Note 10)	162,158	162,349
Government advances for student loans	3,241	3,224
Asset retirement obligation (Note 8)	729	847
Total liabilities	234,601	232,230
Net Assets (Note 13):		
Unrestricted	244,907	211,540
Temporarily restricted	475,273	413,013
Permanently restricted	307,894	293,891
Total net assets	1,028,074	918,444
Total liabilities and net assets	$ 1,262,675	$ 1,150,674

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

CLAREMONT MCKENNA COLLEGE
STATEMENT OF ACTIVITIES

For the year ended June 30, 2014
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Student revenues	$ 77,139	$ -	$ -	$ 77,139
Less: Financial aid	(20,799)	-	-	(20,799)
Net student revenues (Note 15)	56,340	-	-	56,340
Private gifts and grants	4,169	14,414	6,873	25,456
Federal grants	789	-	-	789
Private contracts	812	-	-	812
Spending policy income	8,098	20,851	162	29,111
Other investment income	2,038	21	63	2,122
Other revenues	1,882	-	-	1,882
Release of net assets				
Restricted gifts	16,620	(16,620)	-	-
Restricted spending policy income	19,528	(19,528)	-	-
Annuity and life income	115	(115)	-	-
Total revenues	110,391	(977)	7,098	116,512
Expenses:				
Instruction	34,933	-	-	34,933
Research	8,298	-	-	8,298
Academic support	8,469	-	-	8,469
Student services	15,197	-	-	15,197
Institutional support	16,678	-	-	16,678
Auxiliary enterprises	17,140	-	-	17,140
Total expenses	100,715	-	-	100,715
Excess of revenues over expenses	9,676	(977)	7,098	15,797
Other changes in net assets:				
Realized and unrealized gains (losses), net of spending allocation	23,433	64,136	1,228	88,797
Actuarial adjustment	-	1,949	2,793	4,742
Staff retirement plan comprehensive gain	294	-	-	294
Donor redesignations between net asset categories	(36)	(2,848)	2,884	-
Change in net assets	33,367	62,260	14,003	109,630
Net assets at beginning of year	211,540	413,013	293,891	918,444
Net assets at end of year	$ 244,907	$ 475,273	$ 307,894	$ 1,028,074

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

CLAREMONT MCKENNA COLLEGE
STATEMENT OF ACTIVITIES

For the year ended June 30, 2013
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Student revenues	$ 72,995	$ -	$ -	$ 72,995
Less: Financial aid	(20,355)	-	-	(20,355)
Net student revenues	52,640	-	-	52,640
Private gifts and grants	3,675	18,970	8,057	30,702
Federal grants	910	-	-	910
Private contracts	658	-	-	658
Spending policy income	7,599	19,340	323	27,262
Other investment income	1,790	-	191	1,981
Other revenues	1,958	-	-	1,958
Release of net assets				
Restricted gifts	20,743	(20,743)	-	-
Restricted spending policy income	18,259	(18,259)	-	-
Annuity and life income	365	(365)	-	-
Total revenues	108,597	(1,057)	8,571	116,111
Expenses:				
Instruction	34,490	-	-	34,490
Research	7,459	-	-	7,459
Academic support	8,598	-	-	8,598
Student services	13,985	-	-	13,985
Institutional support	16,243	-	-	16,243
Auxiliary enterprises	16,787	-	-	16,787
Total expenses	97,562	-	-	97,562
Excess of revenues over expenses	11,035	(1,057)	8,571	18,549
Other changes in net assets:				
Realized and unrealized gains (losses), net of spending allocation	22,864	36,911	313	60,088
Release of net assets				
Plant facilities	1,145	(1,145)	-	-
Actuarial adjustment	-	2,567	1,777	4,344
Staff retirement plan comprehensive gain	765	-	-	765
Donor redesignations between net asset categories	52	(6,477)	6,425	-
Change in net assets	35,861	30,799	17,086	83,746
Net assets at beginning of year	175,679	382,214	276,805	834,698
Net assets at end of year	$ 211,540	$ 413,013	$ 293,891	$ 918,444

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

CLAREMONT MCKENNA COLLEGE
STATEMENTS OF CASH FLOWS

For the years ended June 30, 2014 and June 30, 2013
(in thousands)

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 109,630	$ 83,746
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	7,988	7,498
Amortization and accretion expense	(112)	(115)
Loss on disposal of plant facilities	559	36
Allowance for doubtful student loan accounts	29	24
Comprehensive (gain)/loss on staff retirement plan	(294)	(765)
Discount on life income contract gifts	(2,886)	(3,140)
Realized and unrealized (gain)/loss on investments	(123,395)	(91,636)
Loss on debt defeasance	-	18
Non-cash gifts	(7,495)	(8,826)
Adjustment of actuarial liability for annuities payable	6,066	6,298
Decrease/(increase) in accounts and contributions receivable	10,300	2,564
Decrease/(increase) in beneficial interest in trusts	(359)	(108)
Decrease/(increase) in prepaid expenses and deposits	(872)	(860)
(Decrease)/increase in accounts payable and accrued liabilities	1,694	4,436
(Decrease)/increase in funds held in trust for others	275	57
(Decrease)/increase in deposits and deferred revenues	463	248
Contributions restricted for long-term investments	(14,988)	(14,199)
Defined benefit plan contributions over expense	(157)	(167)
Net cash (used in)/provided by operating activities	(13,554)	(14,891)
Cash flows from investing activities:		
Purchase of plant facilities	(34,625)	(15,396)
Purchases of investments	(702,931)	(638,508)
Proceeds from sales of investments	738,410	634,271
Loans made to students and employees	(2,012)	(2,367)
Collection of student and employee loans	2,079	2,185
Net cash (used in)/provided by investing activities	921	(19,815)
Cash flows from financing activities:		
Payments to annuity and life income beneficiaries	(4,829)	(4,742)
Investment income for annuity and life income investments	1,956	1,892
Proceeds from borrowings	1,125	26,021
Principal payments for borrowings	(1,551)	(1,418)
Contributions restricted for life income contracts	2,994	4,018
Contributions restricted for endowment	11,528	9,909
Contributions restricted for plant expenditures and student loans	466	272
Increase/(decrease) in government advances for student loans	17	6
Net cash (used in)/provided by financing activities	11,706	35,958
Net (decrease)/increase in cash	(927)	1,252
Cash at beginning of year	1,659	407
Cash at end of year	$ 732	$ 1,659
Supplemental disclosure of cash flows:		
Interest paid	$ 7,869	$ 7,171
Supplemental disclosure of noncash financing activity:		
Capital lease obligation	$ 292	$ 152

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

June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Established in 1946, Claremont McKenna College (the "College") is a highly selective, independent, coeducational, residential, liberal arts college. The College's mission, within the mutually supportive framework of The Claremont Colleges (Note 17), 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 contributes to intellectual vitality and the understanding of public policy issues. The College pursues this mission by providing a liberal arts education that emphasizes economics and political science, a professoriate that is dedicated to effective teaching, a close student-teacher relationship that fosters critical inquiry, an active residential and intellectual environment that promotes responsible citizenship, and a program of research institutes and scholarly support that makes possible a faculty of teacher-scholars.

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 (U.S.).

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 resources that a donor has required the College to retain in perpetuity. Generally, the donor of these assets permits the College to use all or a part of the income and gains earned on the gifted assets.

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

Contributions, including unconditional promises to give, are recognized as revenue in the period pledged or received and are reported as increases in the appropriate category of 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.

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

Collectability of student accounts, notes receivable, and contributions 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 decrease to accounts, notes, or contributions receivable. The College follows federal guidelines for determining when student loans are delinquent or past due for both federal and institutional loans.

June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: *Continued*

Release 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 when unexpended endowment earnings are appropriated by the Board of Trustees. It is the College's policy to release the restrictions on contributions of cash or other assets received for the acquisition of long-lived assets when the long-lived assets are placed into service.

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

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.

Cash:
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.

Cash Held in Separate Accounts:
The California Student Aid Commission requires institutions participating in the Cal Grant program to maintain funds advanced in a separate interest bearing account to properly handle and manage the funds. The funds are the property of the State, and unspent funds are to be returned according to the State's required timelines along with interest earned.

Concentration of Credit Risk:
Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash deposits at financial institutions and investments in marketable securities. At times, balances in the College's cash and investment accounts exceed the Federal Deposit Insurance Corporation (FDIC) or Securities Investors Protection Corporation (SIPC) insured limits. Concentration of credit risk with respect to receivables are limited due to the large number of students from which amounts are due, with no one account being significant.

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. Non-marketable investments are carried at estimated fair value provided by the management of the non-marketable investment partnerships or funds at June 30, 2014 and 2013. 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 investments. Because non-marketable investments are not readily marketable, the estimated value is subject to uncertainty and such differences could be material.

June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: *Continued*

Investments: *Continued*

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 temporarily or permanently restricted by explicit donor stipulation or by law. The date of record for investments is the trade date.

Derivatives:

Certain investments held by the College may include derivative instruments as part of their investment strategy, but the College does not invest directly in derivatives.

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. 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 their respective net asset categories and are available for appropriation under the College's spending policy. At June 30, 2014 and 2013, these cumulative gains totaled approximately $100,191,000 and $83,710,000, respectively. The Board of Trustees may, at its discretion, approve additional spending for special projects. The Board of Trustees adopted a new investment policy in October 2012 to be implemented over a period of three to four years. The amount of investment return available for current operations will be determined by applying an increase of 2.0% to the prior year unit spending rate, provided that the resulting calculation falls within a collar of 4.5% to 5.5% of a twenty quarter average unit market value.

Endowment Funds:

The Board of Trustees of the College interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) to state that the College, in the absence of explicit donor stipulations to the contrary, may appropriate for expenditure or accumulate so much of an endowment fund as the College determines prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. As a result of this interpretation, the College classifies as permanently restricted net assets the original value of gifts donated to the endowment, original value of subsequent gifts to the endowment, and accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA which includes consideration of the:

(1) Duration and preservation of the fund
(2) Mission of the College and the donor-restricted endowment fund
(3) General economic conditions
(4) Possible effects of inflation and deflation
(5) Expected total return from income and appreciation of investments
(6) Other resources of the College
(7) Investment policy of the College.

June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: *Continued*

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. Plant purchases with a useful life of five years or more and a cost equal to or greater than $100,000 for land improvements and buildings and $25,000 for equipment are capitalized. Estimated useful lives are generally 7 years for equipment, 50 years for buildings and 25 years for permanent improvements. Building improvements that extend the remaining useful life of the building are depreciated over a period not to exceed 20 years. 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 transfers to its capital project reserves an amount to allow for the preservation of its existing facilities into the future. Asset retirement obligations are recorded based on estimated settlement dates and methods.

No significant property or equipment has been pledged as collateral or otherwise subject to lien for the years ended June 30, 2014 and 2013. Proceeds from the disposal of equipment acquired with federal funds are transferred to the federal awarding agency. No property or equipment has been acquired with restricted assets where title may revert to another party.

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 expenses.

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 asset 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 1.2% to 7.6% and over estimated lives according to the IRS Annuity 2000 Mortality Tables.

The College is subject to additional legally mandated annuity reserve requirements by the State of California on its California gift annuity contracts. 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 organization bond rating of “A” or better and (2) maintain an endowment to gift annuity ratio of at least 10:1.

Income Taxes:

The College had no unrecognized tax benefits and/or obligations at June 30, 2014 and 2013.

Use Of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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.

June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: ***Continued***

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 notes receivables, which are primarily federally sponsored student loans with the U.S. government, mandated interest rates and repayment terms is subject to significant restrictions as to their transfer or disposition and is not practical because such a determination cannot be made without incurring excessive costs.

The College carries most investments at fair value in accordance with generally accepted accounting principles. Fair value is defined as the price that would be received to sell an asset (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. Accounting standards have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the College has the ability to access at the measurement date;
Level 2 – Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active;
Level 3 – Inputs that are unobservable.

Inputs are used in applying the valuation techniques and broadly refer to the assumptions that the College uses to make valuation decisions, including assumptions about risk. Inputs may include quoted market prices, recent transactions, manager statements, periodicals, newspapers, provisions within agreements with investment managers and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the College's perceived risk of that investment.

Investments in cash equivalents, mutual funds, and certain domestic and international equities are valued based on quoted market prices, and are therefore typically classified within Level 1.

Investments in fixed income and other investment funds valued using net asset value per share (NAV) or its equivalent as reported by investment managers, which are audited under AICPA guidelines and that have trading activity and the ability to redeem at NAV on or near the reporting date, are included within Level 2.

Certain investments in hedge funds, private equity funds, or other private investments, and the College's beneficial interest in trusts valued utilizing unobservable inputs, and which have had no trading activity or cannot be redeemed at NAV or its equivalent on or near the reporting date are classified within Level 3. These assets are presented in the accompanying financial statements at fair value. The College's determination of fair value is based upon the best available information provided by the investment manager and may incorporate management assumptions and best estimates after considering a variety of internal and external factors. Such value generally represents the College's proportionate share of the partner's capital of the investment partnerships as reported by their general partners. For these investments, the College, through its monitoring activities, agrees with the fair market value as determined by the investment managers.

June 30, 2014 and 2013
(in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: *Continued*

Fair Value of Financial Instruments: *Continued*

The general partners of the underlying investment partnerships generally value their investments at fair value and in accordance with generally accepted accounting principles. Investments with no readily available market are generally valued according to the estimated fair value method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations and/or the income approach. Consideration is also given to financial condition and operating results of the investment, the amount that the investment partnerships can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. An investment can be carried at acquisition price (cost) if little has changed since the initial investment of the partnership and if it is most representative of fair value. Investments with a readily available market (listed on a securities exchange or traded in the over-the-counter market) are valued at quoted market prices or at an appropriate discount from such price if marketability of the securities is restricted.

Although the College uses its best judgment in determining the fair value, the values presented herein are not necessarily indicative of the amount that the College could realize in a current transaction. Future events could affect the estimates of fair value and could be material to the financial statements. These events could also affect the amount realized upon redemption of the investments.

Reclassifications:

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

NOTE 2 - ACCOUNTS AND NOTES RECEIVABLE:

Accounts and notes receivable at June 30, 2014 and 2013 are as follows:

	2014	2013
Student notes receivable	$ 10,990	$ 11,349
Federal loan funds	1,895	2,181
Other Claremont Colleges	250	506
Student accounts receivable	793	1,013
Grants and contracts receivable	189	358
Housing assistance notes receivable	2,283	1,705
Other	507	412
	16,907	17,524
Less allowance for doubtful accounts receivable	(708)	(527)
Net accounts and notes receivable	$ 16,199	$ 16,997

NOTE 3 - CONTRIBUTIONS RECEIVABLE AND BENEFICIAL INTEREST IN TRUSTS:

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions receivable are recorded after discounting to the present value of future cash flows at rates ranging from 1.4% to 4.9%.

Contributions receivable at June 30, 2014 and 2013 are expected to be realized as follows:

	2014	2013
Within one year	$ 23,394	$ 22,273
Between one year and five years	66,288	73,444
More than five years	178,119	188,593
	267,801	284,310
Less discount	(70,036)	(77,149)
Less allowance for doubtful contributions receivable	(1,188)	(986)
Net contributions receivable	$ 196,577	$ 206,175

June 30, 2014 and 2013
(in thousands)

NOTE 3 - CONTRIBUTIONS RECEIVABLE AND BENEFICIAL INTEREST IN TRUSTS: ***Continued***

Contributions receivable at June 30, 2014 and 2013 are intended for the following uses:

	2014	2013
Endowment	$ 107,390	$ 112,756
Plant	5,079	5,162
Other	84,108	88,257
Net contributions receivable	$ 196,577	$ 206,175

At June 30, 2014 and 2013, the College had knowledge of conditional promises to give in the amount of $3,880 and $3,695, respectively. The promises will be recognized as revenue when the conditions are met.

Conditional promises to give at June 30, 2014 and 2013 are intended for the following uses:

	2014	2013
Endowed chairs for new and existing faculty positions	$ 2,430	$ 3,695
General purposes of the College	1,450	-
Net conditional promises to receive	$ 3,880	$ 3,695

At June 30, 2014 and 2013, the College held beneficial interest in outside trusts of $6,219 and $5,860, respectively. These trusts are administered by outside trustees, with the College deriving income and/or a residual interest from the assets. When an irrevocable trust is established or the College is notified of its existence, the College recognizes its beneficial interest in the trust as a contribution at fair value, which is measured as the present value of the estimated expected future benefits to be received when the trust assets are distributed. The contribution revenue recognized is classified as an increase in either temporarily or permanently restricted net assets based on the time or use restrictions placed by the donor upon the College's beneficial interest in the assets. Periodic adjustments to the beneficial interest to reflect changes in the fair value, life expectancy, and discount rate are recognized as actuarial gains or losses. The discount rates used are commensurate with the risks associated with the contribution.

At June 30, 2014, 92.2% of contributions receivable were due from three donors. At June 30, 2013, 89.7% of contributions receivable were due from three donors.

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 that pertains to this method at June 30, 2014 and 2013:

	Pooled Investments Fund	
	2014	2013
Unit market value at end of year	$ 689.12	$ 603.32
Units owned:		
Unrestricted:		
Funds functioning as endowment	228,444	230,847
Temporarily restricted:		
Annuity and life income contracts and agreements	20,642	19,794
Endowment	71,169	67,844
Total temporarily restricted	91,811	87,638
Permanently restricted:		
Endowment	713,513	692,538
College loan investments	2,413	2,379
Annuity and life income contracts and agreements	38,843	43,774
Total permanently restricted	754,769	738,691
Total units	1,075,024	1,057,176

June 30, 2014 and 2013
(in thousands)

NOTE 4 - INVESTMENTS: ***Continued***

Investment income related to College investments for the years ended June 30, 2014 and 2013, net of management and custody fees of $4,095 and $4,117, respectively, is as follows:

Amounts allocated in accordance with spending policy for pooled investments:	2014	2013
Net pooled investment income	$ 3,028	$ 2,568
Pooled investment gains appropriated	27,923	26,492
Total spending policy income and gains	30,951	29,060
Other investment income	2,122	1,981
Less amounts allocated to annuity and life income contracts and agreements	(1,840)	(1,798)
Total investment income	$ 31,233	$ 29,243
Realized and unrealized gains/(losses), net of spending allocation	88,797	60,088
Total investment returns	$ 120,030	$ 89,331

It is the College's policy to establish and maintain a diversified investment portfolio. 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, except for real estate and other investments. The following schedule summarizes the assets in pooled investments and the assets held as separate investments at June 30, 2014 and 2013:

	2014	2013
Cash equivalents	$ 26,540	$ 20,119
Domestic equities	215,704	173,450
International equities	170,626	145,619
Domestic treasuries	49,767	26,501
Global fixed income	43,014	49,957
High yield and bank loans	20,957	37,912
Assets whose use is limited (Note 11)	5,212	27,881
Private investments:		
Long/short equity	49,391	44,764
Absolute return funds	90,425	82,708
Private equity and venture capital	99,094	71,019
Real estate, energy, and timber	53,126	48,053
Total investments	$ 823,856	$ 727,983

By category:	2014	2013
Endowment and funds functioning as endowment:		
Pooled investments	$ 698,165	$ 598,024
Separately invested	1,328	1,123
Total endowment and funds functioning as endowment	699,493	599,147
Annuity and life income contracts:		
Pooled investments	$ 40,992	$ 38,352
Separately invested	16,794	14,403
Total annuity and life income contracts and agreements	57,786	52,755
Other:		
Pooled	$ 1,663	$ 1,435
Separately invested	64,914	74,646
Total other	66,577	76,081
Total by category	$ 823,856	$ 727,983

June 30, 2014 and 2013
(in thousands)

NOTE 5 - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS:

The following table presents the investments and beneficial interest in trusts carried on the Statement of Financial Position by level within the valuation hierarchy at June 30, 2014 and 2013:

	Level 1	Level 2	Level 3	2014
Cash equivalents	$ 26,493	$ 47	$ -	$ 26,540
Domestic equities	142,890	72,814	-	215,704
International equities	55,956	114,670	-	170,626
Domestic treasuries	-	49,767	-	49,767
Global fixed income	22,884	20,130	-	43,014
High yield and bank loans	-	20,957		20,957
Assets whose use is limited	-	5,212	-	5,212
Private investments:				
Long/short equity	-	-	49,391	49,391
Absolute return	-	-	90,425	90,425
Private equity and venture capital	-	-	99,094	99,094
Real estate, energy, and timber	-	-	53,126	53,126
Beneficial interest in trusts	-	-	6,219	6,219
Total	$ 248,223	$ 283,597	$ 298,255	$ 830,075

	Level 1	Level 2	Level 3	2013
Cash equivalents	$ 20,080	$ 39	$ -	$ 20,119
Domestic equities	127,365	46,085	-	173,450
International equities	38,781	106,838	-	145,619
Domestic treasuries	-	26,501	-	26,501
Global fixed income	31,296	18,661	-	49,957
High yield and bank loans	-	37,912	-	37,912
Assets whose use is limited	-	27,881	-	27,881
Private investments:				
Long/short equity	-	-	44,764	44,764
Absolute return	-	-	82,708	82,708
Private equity and venture capital	-	-	71,019	71,019
Real estate, energy, and timber	-	-	48,053	48,053
Beneficial interest in trusts	-	-	5,860	5,860
Total	$ 217,522	$ 263,917	$ 252,404	$ 733,843

June 30, 2014 and 2013
(in thousands)

NOTE 5 - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS: *Continued*

The following table includes a roll forward of the amounts for assets classified within Level 3 at June 30, 2014 and 2013:

	Long/short equity	Absolute return	Private equity & Venture capital	Real estate, energy, and timber	Beneficial Interest in Trusts	Total
Balance at July 1, 2012	$ 18,152	$ 75,671	$ 71,141	$ 43,238	$ 5,752	$ 213,954
Purchases	20,599	39	9,062	6,468	-	36,168
Sales	(1,189)	(10,946)	(24,813)	(8,028)	-	(44,976)
Transfers in	1,149	3,854	-	-	-	5,003
Realized gain/(loss), net	(23)	1,165	8,526	2,185	-	11,853
Unrealized gain/(loss), net	6,076	12,925	6,097	2,815	-	27,913
Interest/dividends	-	-	1,006	1,375	-	2,381
Actuarial adjustment	-	-	-	-	108	108
Balance at July 1, 2013	$ 44,764	$ 82,708	$ 71,019	$ 48,053	$ 5,860	$ 252,404
Purchases	-	91	21,321	9,130	-	30,542
Sales	(1,198)	(3,291)	(17,943)	(15,096)	-	(37,528)
Realized gain/(loss), net	14	86	6,529	3,474	-	10,103
Unrealized gain/(loss), net	5,811	10,830	17,450	5,374	-	39,465
Interest/dividends	-	1	718	2,191	-	2,910
Actuarial adjustment	-	-	-	-	359	359
Balance at June 30, 2014	$ 49,391	$ 90,425	$ 99,094	$ 53,126	$ 6,219	$ 298,255

Net appreciation/(depreciation) on investments and beneficial interest in trusts are reflected in the line "Realized and unrealized gains/(losses), net of spending allocation" and "Other investment income," respectively, on the Statement of Activities. Also included in those accounts are net unrealized gains/(losses) on investments and actuarial adjustment on beneficial interest in trusts for Level 3 assets still held at June 30, 2014 and 2013 of $39,465 and $27,913, respectively. The College's policy is to recognize transfers in and transfers out of Level 1, Level 2, and Level 3 at the beginning of the reporting period. Transfers in to Level 3 during the period ending June 30, 2014 and 2013 are due to changes in liquidity terms.

The following table shows the fair value, unfunded commitments and redemption restrictions for investments reported at Net Asset Value at June 30, 2014:

	Fair Value at June 30, 2014	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Domestic equities	$ 72,814	none	30 to 90 days	30 to 60 days	(1)
International equity funds	114,670	none	30 to 90 days	6 to 60 days	(1)
Domestic treasuries	49,767	none	Daily	Daily	(1)
Global fixed income	20,130	none	1 to 30 days	10 to 15 days	(1)
High yield and bank loans	20,957	none	30 days	30 days	(1)
Long/short equity	49,391	none	1 to 3 years	60 to 90 days	(2)
Absolute return	90,425	none	qtrly to 1 years	45 to 90 days	(2)
Private equity and venture capital	99,094	$ 41,360	N/A	N/A	(3)
Real estate, energy, and timber	53,126	29,193	N/A	N/A	(3)
Total	$ 570,374	$ 70,553			

June 30, 2014 and 2013
(in thousands)

NOTE 5 - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS: *Continued*

(1) These categories include investments in commingled fund vehicles that invest in debt and equity securities. The debt funds serve as a deflation hedge for the portfolio, while the equity allocation seeks total return and growth. The fair values of the investments in these categories have been estimated using the net asset value per share as reported by each underlying fund. There are no significant redemption restrictions in place for these funds.

(2) This category includes investments in global long/short, event driven, diversified arbitrage, distressed securities, and other multi-strategy hedge fund vehicles. The hedge fund allocation is intended to reduce risk by mitigating volatility of the equity markets and targets positive and stable absolute returns. The fair values of the investments in this category have been estimated using the net asset value per share as reported by each underlying fund.

(3) These categories include investments in leveraged buyout, distressed securities, venture capital, real estate, and energy private limited partnership funds. The real estate and energy funds serve as an inflation hedge for the portfolio and the other private categories are included for total return enhancement. The fair values of the investments in these categories have been estimated using the College's ownership percentage of the total net asset value for each underlying fund. The contractual life of these funds ranges from ten to fifteen years and distributions will be received as the underlying investments are realized.

NOTE 6 - PLANT FACILITIES:

Plant facilities are recorded at cost or estimated fair value at the date of donation, and at June 30, 2014 and 2013 consists of the following:

	2014	2013
Land and land improvements	$ 20,068	$ 20,100
Buildings and permanent improvements	184,471	185,833
Equipment	25,159	24,855
Equipment under capital lease	1,962	1,670
Property held for future use	14,296	13,938
Construction in progress	46,741	13,407
	292,697	259,803
Less accumulated depreciation	(79,978)	(73,304)
Net plant facilities	$ 212,719	$ 186,499

At June 30, 2014 and 2013, the amount of capitalized interest included in construction in progress was $829 and $0, respectively.

NOTE 7 - CAPITAL LEASE OBLIGATION:

The College entered into capital lease commitments to finance the acquisition of certain equipment. The corresponding obligations are due in monthly and quarterly installments with maturities through November 2018.

The annual capital lease obligation at June 30, 2014 was as follows:

Fiscal Years Ending June 30,	Lease Payments
2015	$ 481
2016	340
2017	126
2018	83
2019	26
Total payments	1,056
Less interest	(73)
Total capital lease obligation	$ 983

June 30, 2014 and 2013
(in thousands)

NOTE 8 - ASSET RETIREMENT OBLIGATION:

The College has recorded asset retirement obligations related to certain fixed assets, primarily for disposal of regulated materials upon eventual retirement of the assets.

The following schedule summarizes asset retirement obligation activity for the years ended June 30, 2014 and 2013:

	2014	2013
Obligations incurred	$ -	$ -
Obligations settled	(152)	-
Accretion expense	34	31
Revisions in estimated cash flows	-	-
	(118)	31
Beginning balance	847	816
Ending balance	$ 729	$ 847

NOTE 9 - LIFE INCOME AND ANNUITIES PAYABLE:

Life income and annuities payable of $44,046 and $43,276 at June 30, 2014 and 2013, respectively, represent actuarially determined liabilities for contractual obligations under gift annuities, unitrusts, and pooled income funds.

Matured annuity and life income agreements for the years ended June 30, 2014 and 2013 also include $3,611 and $3,278, respectively, of releases to endowment within permanently restricted net assets.

NOTE 10 - BONDS AND NOTES PAYABLE:

At June 30, 2014 and 2013, bonds payable was comprised of the following:

	2014	2013
Bonds issued through California Educational Facilities Authority (CEFA):		
Series 1999	$ -	$ 660
Series 2007	38,940	39,185
Series 2009	83,095	83,095
Series 2011	5,480	5,480
Series 2012	29,745	30,000
	157,260	158,420
Notes issued through California Municipal Finance Authority (CMFA):		
2013 Tax-Exempt Loan	1,178	-
	158,438	158,420
Unamortized premium/(discount), net	3,720	3,929
Total bonds and notes payable	$ 162,158	$ 162,349

The CEFA Series 1999 bonds last installment was paid in November 2013.

The CEFA Series 2007 bonds are due in 2038. Annual installments range from $705 in 2015 to $3,575 in 2038. Interest is payable semi-annually at rates ranging from 3.8% to 5.0%, at June 30, 2014. Bonds maturing after January 1, 2017 with principal balances totaling $36,740 are subject to mandatory redemption at the outstanding principal balance plus accrued interest.

The CEFA Series 2009 bonds are due in one installment in 2039. Interest is payable semi-annually at a 5% rate. The bonds are not subject to mandatory redemption.

June 30, 2014 and 2013
(in thousands)

NOTE 10 - BONDS AND NOTES PAYABLE: ***Continued***

The CEFA Series 2011 bonds are due in 2030. Annual installments range from $245 in 2015 to $480 in 2030. Interest is payable semi-annually at rates ranging from 4.0% to 5.3%, at June 30, 2014. Bonds maturing after January 1, 2026 with principal balances totaling $1,770 are subject to mandatory redemption at the outstanding principal balance plus accrued interest. Refunding proceeds of approximately $5,687 were deposited into an irrevocable trust with an escrow agent to provide for the partial redemption of the CEFA Series 1999 bonds. As a result, as of June 30, 2013, a portion of the CEFA Series 1999 bonds liability have been removed from the Statement of Financial Position.

The CEFA Series 2012 bonds are due in 2042. Annual installments range from $285 in 2015 to $22,260 in 2042. Interest is payable semi-annually at rates ranging from 2.3% to 5.0%, at June 30, 2014. Bonds maturing after January 1, 2033 are subject to mandatory redemption, in part, by lot, from mandatory sinking fund payments deposited. The Bonds maturing on January 1, 2042 are not subject to mandatory redemption prior to their stated maturity.

In December 2013, the College signed a California Municipal Finance Authority (CMFA) Tax-Exempt Loan agreement, not to exceed $25,000,000, that matures December 2043. The College can make monthly draws through December 2016. Interest is 3.50% per annum. The note requires monthly principal and interest payments. The loan was obtained for the purpose of financing the acquisition, construction, renovation, installation, and equipping of certain educational facilities.

Interest expense was $6,868 and $7,342 for the years ended June 30, 2014 and 2013, respectively.

The maturity of notes and bonds payable at June 30, 2014, is as follows:

Fiscal Years Ending June 30,	Principal Amount
2015	$ 1,258
2016	1,314
2017	1,360
2018	1,411
2019	1,472
Thereafter	151,623
	$ 158,438

The CMFA 2013 Tax Exempt Loan and the CEFA Series 2012, 2011, 2009, 2007, and 1999 bond agreements contain various restrictive covenants which include maintenance of certain financial ratios, as defined in the agreements.

In December 2013, the College entered into an unsecured $10,000,000 line of credit agreement with a bank. Any borrowings under the line would bear interest payable monthly at the Prime Rate less 100 basis points. There were no borrowings outstanding on the line at June 30, 2014.

The College holds CEFA bonds that are reported at an amortized cost of $157,260 and $158,420 at June 30, 2014 and 2013, respectively, in the Statement of Financial Position. These CEFA bonds have an approximate fair value of $166,608 and $164,329 at June 30, 2014 and 2013, respectively. The College determined these CEFA bonds to be Level 2 measurements in the fair value hierarchy.

NOTE 11 - ASSETS WHOSE USE IS LIMITED:

Indenture requirements of bond financing (see Note 10, "Bonds Payable") provide for the establishment and maintenance of various accounts with trustees. The indenture terms limit the use of these funds to capital expenditures and debt service payments as outlined in the agreements. Assets whose use is limited are comprised of cash equivalents and government obligations recorded at market value, which approximates fair value. Assets whose use is limited totaled $5,212 and $27,881, respectively, at June 30, 2014 and 2013.

June 30, 2014 and 2013
(in thousands)

NOTE 12 - EMPLOYEE BENEFIT PLANS:

The College participates, with other members of The Claremont Colleges (Note 17), in a defined contribution retirement plan which provides retirement benefits to eligible personnel through Teachers Insurance and Annuity Association and The College Retirement Equity Fund. 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, 2014 and 2013 totaled $4,060 and $3,771, 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 the Employer 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. The College's allocation of the net pension cost for the years ended June 30, 2014 and 2013 was $124 and $201, respectively. A decision was made to curtail the Plan in June, 2004. Under the curtailment, the accrued benefits earned at June 30, 2005 were frozen and no future benefits will be earned under the plan. The impact of the curtailment was a reduction to the benefit obligation. Eligible plan participants began receiving benefits under the defined contribution retirement plan in July, 2005. Additional information on the Plan can be obtained from the audited financial statements of Claremont University Consortium.

NOTE 13 - NET ASSETS:

At June 30, 2014 and 2013, net assets consists of the following:

	2014	2013
Unrestricted:		
For operations and designated purposes	$ 3,817	$ 1,700
Student loans	3,136	2,447
Board designated endowment funds	157,152	135,509
Plant facilities	80,802	71,884
Total unrestricted	$ 244,907	$ 211,540
Temporarily restricted:		
Restricted for specific purposes	$ 104,002	$ 105,355
Annuity and life income contracts and agreements	4,550	2,448
Term endowments	135,729	140,072
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:		
Without purpose restriction	20,088	15,069
With purpose restriction	210,904	150,069
Total temporarily restricted	$ 475,273	$ 413,013
Permanently restricted:		
Student loans	$ 11,727	$ 11,647
Annuity and life income contracts and agreements	13,158	11,060
Endowment	283,009	271,184
Total permanently restricted	$ 307,894	$ 293,891

June 30, 2014 and 2013
(in thousands)

NOTE 14 - ENDOWMENT:

The net assets of the College include permanent endowments and funds functioning as endowments. Permanent endowments are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized as provided under UPMIFA. While funds 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 year ended June 30, 2014 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014
Investment returns:				
Earned income	$ 3,028	$ 21	$ 78	$ 3,127
Change in realized and unrealized net appreciation (depreciation) of investments	51,125	62,580	(59)	113,646
Net investment return	54,153	62,601	19	116,773
Endowment returns reinvested (or distributed for operations)	(29,507)	1,518	94	(27,895)
Net investment returns	24,646	64,119	113	88,878
Other changes in endowed equity:				
Gifts	-	4,553	5,852	10,405
Other additions, net	(3,003)	(7,161)	5,860	(4,304)
Total other changes in endowed equity	(3,003)	(2,608)	11,712	6,101
Net change in endowed equity	21,643	61,511	11,825	94,979
Endowed equity, beginning of year	135,509	305,210	271,184	711,903
Endowed equity, end of year	$ 157,152	$ 366,721	$ 283,009	$ 806,882

At June 30, 2014, endowed equity consists of the following assets:

Contributions receivable, net of discount	$ -	$ 104,387	$ 3,002	$ 107,389
Investments	157,152	262,334	280,007	699,493
Total endowed equity	$ 157,152	$ 366,721	$ 283,009	$ 806,882

June 30, 2014 and 2013
(in thousands)

NOTE 14 - ENDOWMENT: ***Continued***

Changes in the College's endowment for the year ended June 30, 2013 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013
Investment returns:				
Earned income	$ 2,567	$ -	$ 201	$ 2,768
Change in realized and unrealized net appreciation (depreciation) of investments	47,451	37,140	290	84,881
Net investment return	50,018	37,140	491	87,649
Endowment returns reinvested (or distributed for operations)	(25,919)	1,369	258	(24,292)
Net investment returns	24,099	38,509	749	63,357
Other changes in endowed equity:				
Gifts	-	4,564	7,572	12,136
Other additions, net	2,653	(7,194)	8,481	3,940
Total other changes in endowed equity	2,653	(2,630)	16,053	16,076
Net change in endowed equity	26,752	35,879	16,802	79,433
Endowed equity, beginning of year	108,757	269,331	254,382	632,470
Endowed equity, end of year	$ 135,509	$ 305,210	$ 271,184	$ 711,903

At June 30, 2013, endowed equity consists of the following assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013
Contributions receivable, net of discount	$ -	$ 107,392	$ 5,364	$ 112,756
Investments	135,509	197,818	265,820	599,147
Total endowed equity	$ 135,509	$ 305,210	$ 271,184	$ 711,903

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. Deficiencies for donor-restricted endowment funds were $273 and $3,764 at June 30, 2014 and 2013, respectively.

June 30, 2014 and 2013
(in thousands)

NOTE 15 - NET STUDENT REVENUES:

Student revenues for the years ended June 30, 2014 and 2013 consist of the following:

	2014	2013
Tuition and fees	$ 61,360	$ 58,236
Room and board	15,779	14,759
Gross student revenues	77,139	72,995
Less financial aid:		
Sponsored	(14,620)	(14,407)
Unsponsored	(6,179)	(5,948)
Total financial aid	(20,799)	(20,355)
Net student revenues	$ 56,340	$ 52,640

"Sponsored" student aid consists of funds provided by external entities or income from endowment funds restricted for financial aid, whereas "unsponsored" aid consists of funds provided by the College.

NOTE 16 - INSTITUTIONAL SUPPORT FUNDRAISING EXPENSE:

Included in Institutional Support expenses are $4,508 and $4,521 of expenditures related to fundraising for the years ended June 30, 2014 and 2013, respectively.

NOTE 17 - 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 for the years ended June 30, 2014 and 2013 totaled $5,611 and $5,271, respectively.

NOTE 18 - RELATED PARTY TRANSACTIONS:

The College holds investments 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. Investments at June 30, 2014 and 2013 totaled $20,506 and $17,965, respectively.

The College receives contributions and promises to give from members of the Board of Trustees. For the years ended June 30, 2014 and 2013, the College received $5,968 and $12,248, respectively, of total contribution revenue from members of the Board of Trustees. At June 30, 2014 and 2013, contributions receivable from members of the Board of Trustees totaled $191,244 and $200,258, respectively.

June 30, 2014 and 2013
(in thousands)

NOTE 19 - COMMITMENTS AND CONTINGENCIES:

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.

Occasionally, the College is involved in lawsuits arising in the ordinary course of its operations. The College's management does not expect the ultimate resolution of pending legal actions to have a material effect on the financial position or results of operation of the College.

NOTE 20 - SUBSEQUENT EVENTS:

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The College recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The College’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

Subsequent events have been evaluated through October 22, 2014, which corresponds to the date when the financial statements are available for issuance.

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