Claremont McKenna College

2017–2018 Financial Report

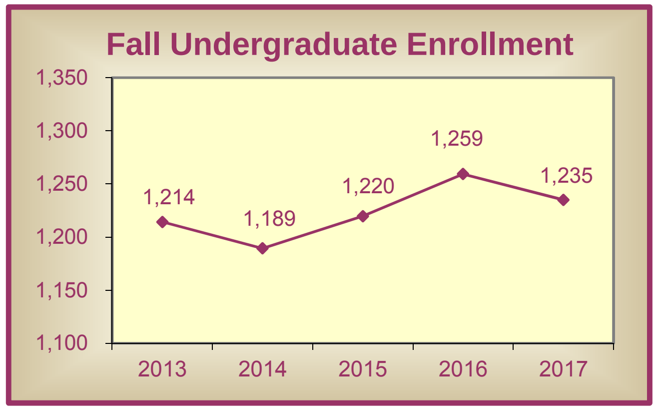
CLAREMONT MCKENNA COLLEGE
ANNUAL FINANCIAL REPORT

2018 and 2017

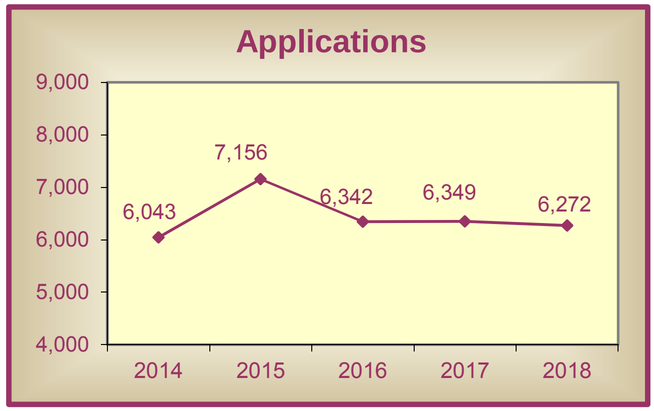
CONTENTS

Financial Highlights

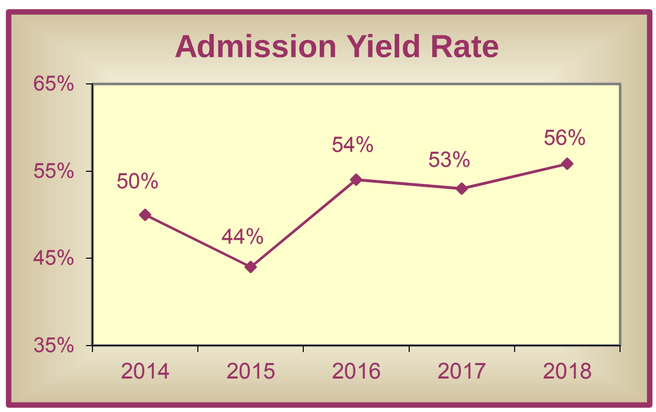
- Fall 2017 FTE enrollment in Claremont was higher than the College's target of 1,220 due to a high admission yield. Prior years reflect planned increases in enrollment due to additional housing capacity on campus. The average FTE enrollment in Claremont for the year (Fall and Spring) was 1,242. FTE enrollment, including off-campus and study-abroad programs, was 1,320.



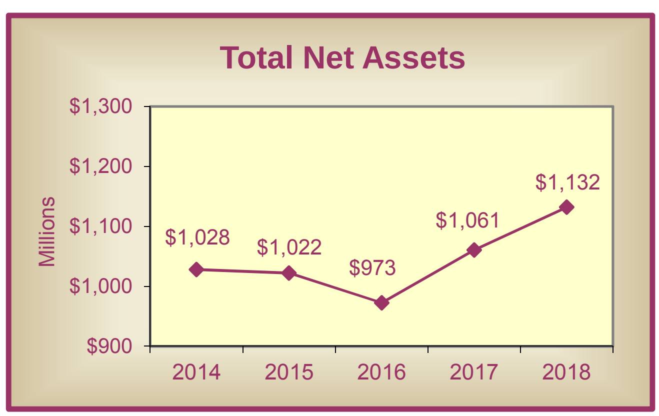
- Applications for admission in the Fall of 2018 were stable at 6,272. The College's selectively rate for freshman admission (acceptances divided by total applications) remained low at 9.3%.



- The overall yield rate continued to be strong, increasing to 56% for the Fall of 2018. The total number of new freshmen entering the College in the Fall of 2018 was 325 students.

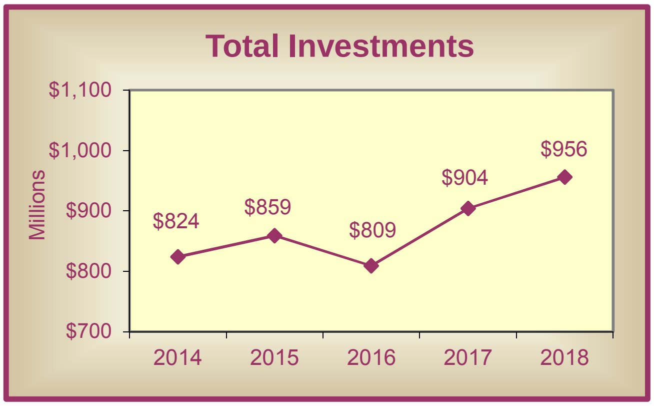


- Total net assets increased by 6.7%, primarily driven by strong investment performance, decreasing liabilities, and strong contributions.

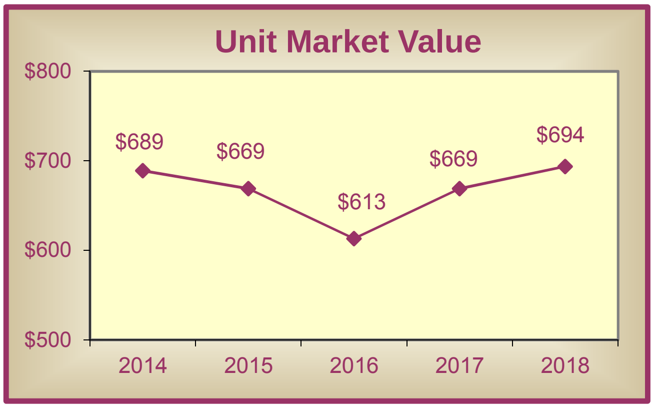


Financial Highlights

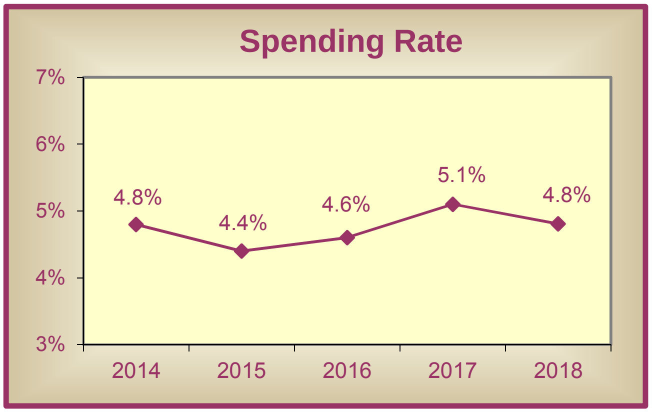
- Total investments increased by 5.7% in 2018, after fees and spending for operations. The net increase was primarily attributed to realized and unrealized gains on investments.



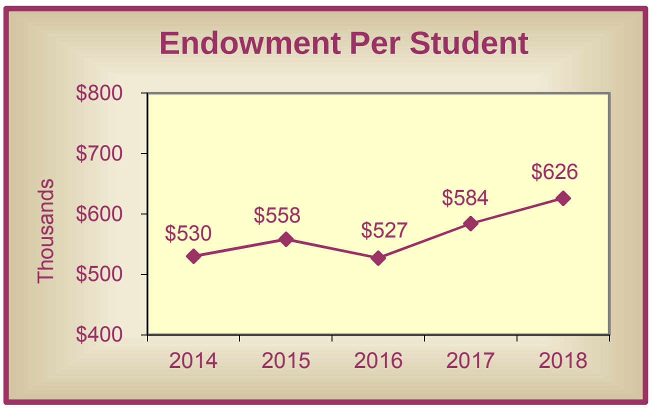
- The market value per unit in the College's investment pool increased by 3.7%. Unit market value reflects general market performance after spending for operations.



- 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 at the end of fiscal year 2017, which became the beginning of the year value for 2018.

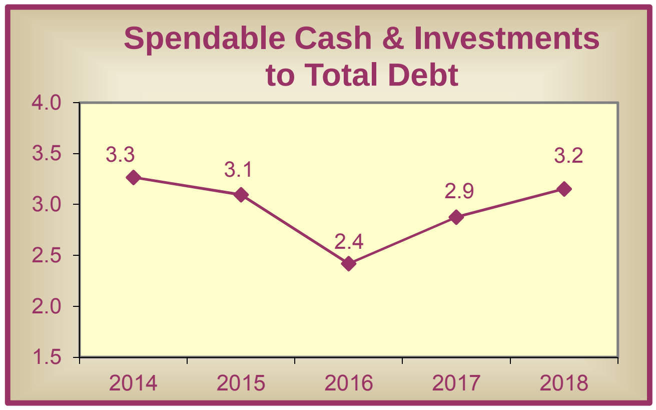


- Endowment per student increased as a result of the increased market value of the endowment. Total endowment at June 30, 2018 was $835 million, representing an all-time high for the College.

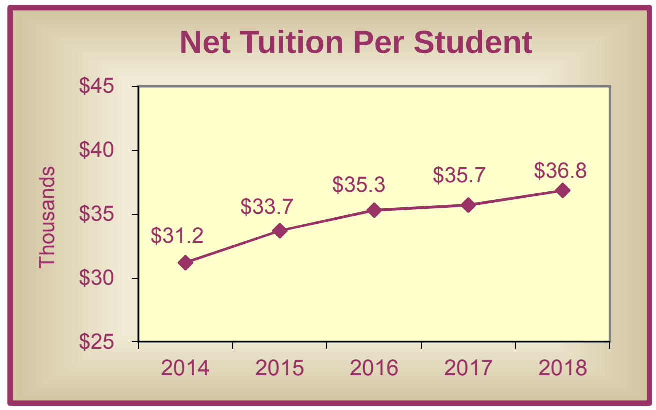


Financial Highlights

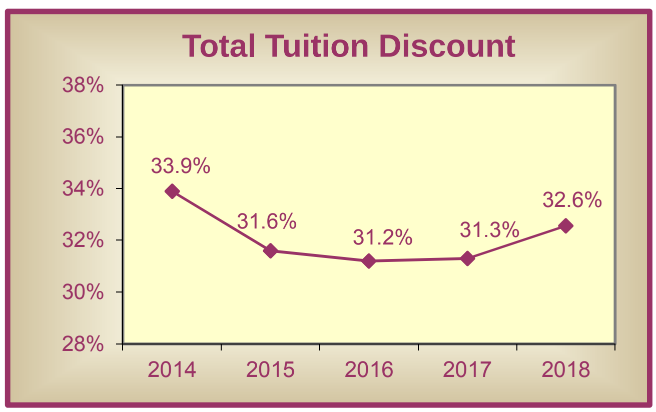
- Total spendable cash and investments to debt increased as a result of paying down principal in combination with increased investment assets. The College's ratio of 3.2 is slightly lower than the 2017 median value of 3.49 for Moody's Aa private institutions. Moody's Investors Services assigned a rating of Aa2 with a stable outlook to CMC's Series 2015 Revenue Bonds.



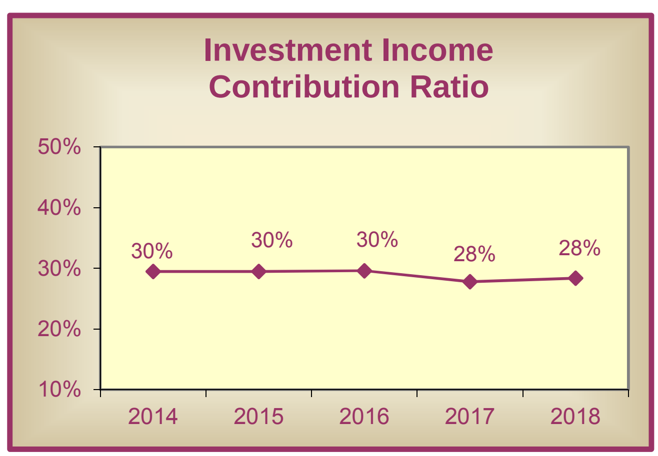
- The College's net tuition per student grew at a rate slightly lower than the rate of increase in total tuition due to a planned increase in the total tuition discount. This dollar level places CMC higher than the 2017 median net tuition per student of $30,632 for Moody's Aa private institutions.



- The total tuition discount (financial aid divided by tuition and fees revenues) increased slightly as part of a planned multi-year expansion. CMC's discount is lower than the 2017 median discount of 37.3% for Moody's Aa private institutions.

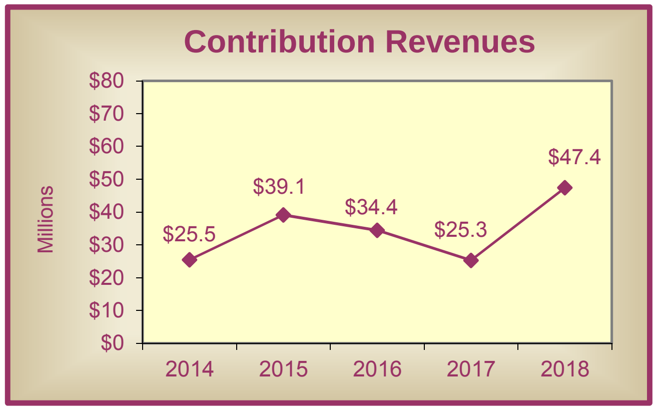


- CMC's endowment and a prudent spending policy produce sufficient investment income to make a significant contribution toward covering the operational costs of a CMC education. The investment income contribution ratio has remained steady over the past five years.

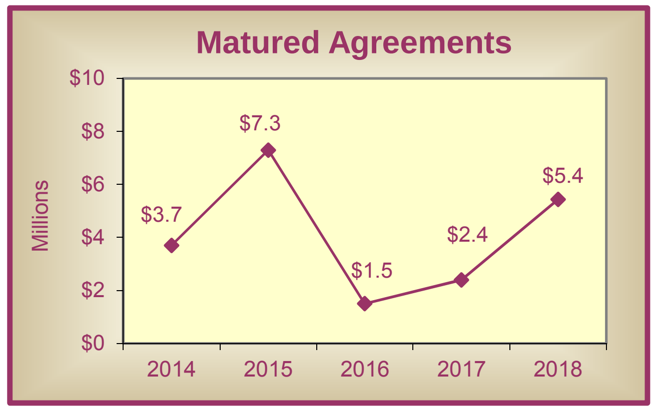


Financial Highlights

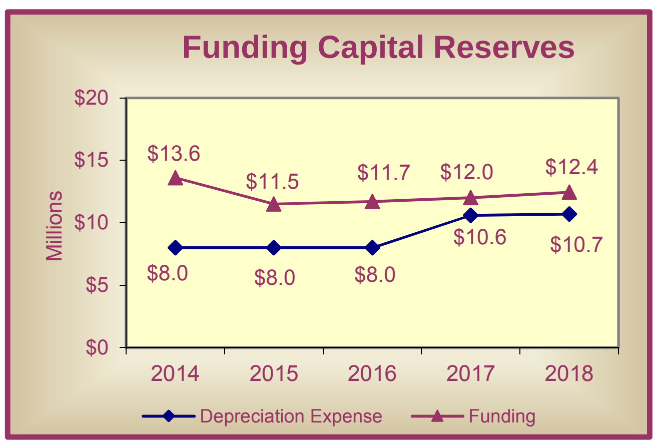
- Total contribution revenues were strong at $47.4 million, reflecting successful fundraising efforts for both unrestricted and restricted private gifts and grants.



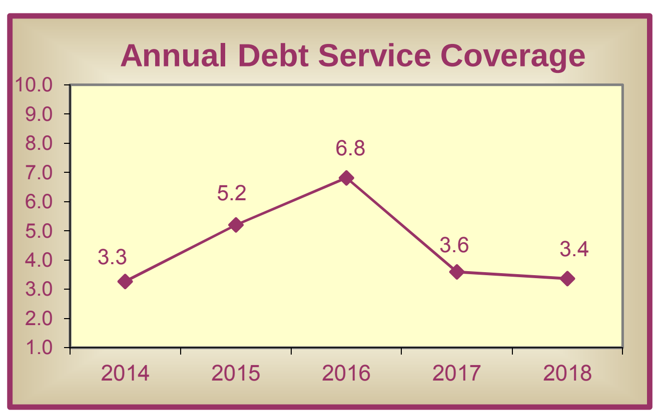
- Although unpredictable from year to year, matured annuity and life income agreements continue to provide significant resources to the College's endowment and operating funds.



- 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 is based on future anticipated 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.



- Annual debt service coverage (the ability to make debt service payments from annual operations) remained fairly consistent in 2018. Debt service coverage decreased in 2017 due to a debt restructuring which increased annual debt service. CMC's ratio is higher than the 2017 median value of 3.12 for Moody's Aa private institutions.



CLAREMONT McKENNA COLLEGE

Office of the Treasurer

October 25, 2018

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

Dear Members of the Board:

The College ended another incredibly successful year with continued high demand for freshman admission and solid financial results. In the face of increasing competition for the best students, the admission yield rate for incoming freshman reached an all-time high of 56% in the Fall of 2018. The College continues to be one of the most selective liberal arts institutions in the country, with an admit rate of just over 9% for Fall of 2018, down from 10% in the prior year.

Academic and co-curricular programs were enhanced, including the launch of a new Quantitative and Computing Lab to expand expertise in computer and data science.

A record 344 CMC students received summer internship and experiential learning grants through the Soll Center for Student Opportunity, up 24% from the previous year.

The CMS Athletics program turned in one of the most successful years in its history, with a third-place finish in the Learfield Directors' Cup ranking of NCAA Division III athletics programs, three Athena team national championships in volleyball, tennis, and golf, and two CMC individual titles in golf and track & field.

On the College's financials, positive investment performance and successful fundraising contributed to an increase in net assets over the prior year of 6.7%. Net tuition per student continued to climb, in combination with a planned rise in the discount rate reflecting the College's commitment to college affordability and meeting 100% of demonstrated financial need. As debt principal continued to be paid down, the College experienced positive momentum in key debt ratios including total spendable cash and investments to debt and annual debt service burden.

From a facilities standpoint, the College continued its practice of managing deferred maintenance through the annual set-aside of funds for renewal and replacement of assets and through regularly scheduled renovation projects. The College successfully acquired a strategically significant piece of vacant land on the east border of campus, advancing the long term campus master plan. These and many other remarkable accomplishments are reflected in the enclosed financial statements and financial highlights.

Statement of Financial Position

CMC maintains a healthy financial position. Total assets increased by 4.7%, primarily driven by an increase in the investment portfolio which is the College's largest asset. The endowment ended the year at a record high of $835 million. CMC's trailing 1-year return for the endowment as of

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Member of The Claremont Colleges

June 30, 2018 was 9.2%, net of fees. This compares favorably to the 8.4% preliminary median return reported for college and university investment portfolios tracked within Cambridge Associates' database. CMC's trailing 5- and 10- year returns of 8.0% and 6.5%, respectively, exceeded both the portfolio's policy custom benchmark return and Cambridge Associates' college and university median returns over the same time periods.

Distributions from the endowment are governed by a Board approved "spending policy formula." The formula is designed to preserve the endowment's real (inflation-adjusted) purchasing power while providing a predictable, stable, and constant (in real terms) stream of operating budget support. CMC's spending policy formula allows spending per unit in the investment pool to increase by 2% per year provided that the resulting increase falls within a collar of 4.5% to 5.5% of a twenty-quarter average unit market value. The spending rate was 4.8%, calculated by dividing the formula-based spending per unit by the beginning market value of a unit in the investment pool. The rate is consistent with the portfolio's five year average spending rate of 4.9%. Investment income, in the form of spending distributions from the endowment, contributes approximately 28% toward funding the College's operating expenses.

The increase in plant facilities assets during the year was primarily due to the purchase of approximately 41 acres of land along the east border of CMC's campus in Spring of 2018. The purchase is consistent with the College's campus master plan and intended to eventually house CMC athletic fields. Perimeter improvements to the land are planned over the next 1-3 years. A significant renovation of CMC's student apartments was completed in summer of 2018, which included a refresh of all internal casework, plumbing fixtures, appliances, flooring, lighting, and furniture. The apartments' exterior was repainted and an outdoor patio/meeting area was constructed. The renovation was well received by students returning to campus.

Total liabilities decreased 3.0% from the prior year as the College made scheduled debt principal payments and there were no new borrowings during the fiscal year. The combination of increased investment assets and decreased outstanding debt had a positive impact on CMC's total spendable cash and investments to total debt ratio. CMC's annual debt service coverage ratio of 3.4 times (a measure of cash flows available to pay current debt obligations) continues to outpace the median value for private institutions within Moody's Investors Service's Aa rating category.

Statement of Activities

The statement of activities provides greater detail of the changes in net assets during the fiscal year. Total revenues increased by 19%, led primarily by increases in temporarily restricted private gifts and grants. Total expenses increased by 5.2% over the prior year, with varying degrees of changes in individual functional expense line items. The most significant changes in operating expenses related to changes in shared services within The Claremont Colleges. Networking operations services were recently consolidated into a central Information Technology unit at The Claremont Colleges, Inc. The Colleges also invested in a new Human Resources Information System which went live as of January 1, 2018. The undergraduate institutions in Claremont and Keck Graduate Institute recently agreed to move forward with implementation of a new student information system with a projected implementation timeline of about three years. The various system changes will ultimately provide valuable cloud based recordkeeping and analytic tools using modern technology.

Net student revenues increased by 2.3%-- a rate lower than the tuition increase due to growth in the tuition discount rate to 32.6%, up from 31.3% in the prior year. Total average undergraduate enrollment for 2017-18 was 1,319.8 FTE students which was above the College's original budget target due to a high yield on the incoming class of 2017. CMC continues to maintain a need-blind admission policy and meet-all-need financial aid policy. College affordability remains a top institutional priority, and the College is making significant strides in this area. On the heels of CMC's successful *Student Imperative* campaign, CMC joined the America Talent Initiative (ATI). ATI brings top colleges and universities together with philanthropic and research communities to expand college access and opportunity for talented low- and moderate-income students. In support of CMC's ATI strategy, the College received a transformative $25 million pledge in Spring of 2018 from the Marie-Josée and Henry R. Kravis Foundation. The pledge dramatically expanded need-based scholarship resources and created the Kravis Opportunity Fund, which provides wide range of direct financial support to low- and moderate-income CMC students.

The College received $47.4 million in private gifts and grants during the year, which met the fundraising goals set by the Advancement Office. Private gifts and grants reported on the Statement of Activities incorporates actuarial adjustments for planned gifts as well as approximately $7.4 million in revenue related to net additional contributions receivable, recognized at present value. Spending policy income increased 4.1% due to the spending policy formula increase as well as incremental gifts to the endowment, including subsequent payments on prior year pledges.

CMC ended the year with a positive excess of revenues over expenses of $38.2 million. After incorporating other changes in net assets such as unrealized and realized investment gains, CMC had a positive excess of revenues over expenses of $71.1 million. Within unrestricted operations, prior to other changes in net assets, CMC ended the year with a positive excess of unrestricted revenues over unrestricted expenses of $13.5 million.

Statements of Cash Flows

Net cash flows increased by $345,000 in fiscal year 2017-18. The net cash used in operating activities of $23 million and financing activities of $3 million was offset by net cash provided by investing activities of $26.3 million. Net cash provided by investment activities was influenced by a drawdown of cash reserves to fund the land purchase as well as net proceeds from sales of investments over purchases of investments of $38.3 million. Cash outside of the investment pool is invested using a blended strategy that seeks to maintain an appropriate level of liquidity matching the timeline of expected use of the cash. Cash flow forecasts are reviewed regularly by the Finance Committee of the Board of Trustees.

Summary

The fiscal year was marked by impressive growth in assets and revenues, due in large part to the fantastic stewardship of the investment pool and the extraordinary support and investment by alumni and donors in CMC's vision. Academic programs and student services support continue to be enhanced, perpetuating an increasingly high demand for admission and an impressive student body.

Members of the Board of Trustees
October 25, 2018

CMC enters fiscal year 2018-19 with positive momentum and a united focus on advancing the key institutional priorities of the College, including expansion of student opportunities, preparation of students for tomorrow's world of affairs through freedom of expression, viewpoint diversity, and effective dialogue, and full integration of interdisciplinary science and data science into the academic fabric of the College. These initiatives carry forward CMC's tradition of integrating the intellectual breadth of the liberal arts with acquisition of professional and technical skills, with the overall goal of educating students for thoughtful and productive lives and roles of responsible leadership in business, the government, and the professions.

Respectfully submitted,

Erin Watkins
Associate Vice President for Finance and Acting Treasurer

MOSSADAMS

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, 2018 and 2017, 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, 2018 and 2017, 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 25, 2018

CLAREMONT MCKENNA COLLEGE
STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017
(in thousands)

	2018	2017
ASSETS		
Cash	$ 908	$ 563
Accounts and notes receivable, net (Note 2)	14,935	15,633
Prepaid expenses and deposits	6,393	5,590
Contributions receivable, net (Note 3)	124,617	117,130
Beneficial interest in trusts (Note 3)	424	401
Investments (Note 4)	955,715	903,609
Plant facilities, net (Note 6)	285,719	283,244
Total assets	$ 1,388,711	$ 1,326,170
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 13,599	$ 13,164
Funds held in trust for others (Note 9)	2,851	3,883
Deposits and deferred revenues	2,011	2,185
Life income and annuities payable (Note 10)	48,199	50,911
Capital lease obligation (Note 7)	1,133	1,313
Bonds and note payable (Note 11)	187,265	191,756
Government advances for student loans	932	1,364
Asset retirement obligation (Note 8)	852	819
Total liabilities	256,842	265,395
Net Assets (Note 14):		
Unrestricted	315,746	295,715
Temporarily restricted	409,845	374,188
Permanently restricted	406,278	390,872
Total net assets	1,131,869	1,060,775
Total liabilities and net assets	$ 1,388,711	$ 1,326,170

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

CLAREMONT MCKENNA COLLEGE
STATEMENT OF ACTIVITIES

For the year ended June 30, 2018
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Student revenues	$ 91,118	$ -	$ -	$ 91,118
Less: Financial aid	(23,474)	-	-	(23,474)
Net student revenues (Note 16)	67,644	-	-	67,644
Private gifts and grants	5,655	35,118	6,617	47,390
Federal grants	910	-	-	910
Private contracts	814	-	-	814
Spending policy income	10,115	27,462	151	37,728
Other investment income	1,938	-	530	2,468
Other revenues	2,714	-	-	2,714
Release of net assets				
Restricted gifts	22,355	(22,355)	-	-
Restricted spending policy income	22,409	(22,409)	-	-
Annuity and life income	433	(433)	-	-
Total revenues	134,987	17,383	7,298	159,668
Expenses:				
Instruction	41,167	-	-	41,167
Research	9,123	-	-	9,123
Academic support	8,368	-	-	8,368
Student services	19,878	-	-	19,878
Institutional support	21,339	-	-	21,339
Auxiliary enterprises	21,614	-	-	21,614
Total expenses	121,489	-	-	121,489
Excess of revenues over expenses	13,498	17,383	7,298	38,179
Other changes in net assets:				
Realized and unrealized gains, net of spending allocation	6,717	23,088	199	30,004
Loss on disposition of property	(16)	-	-	(16)
Realized losses on contributions receivable	-	(339)	(5)	(344)
Release of net assets				
Plant facilities	750	(750)	-	-
Transfers to the Claremont Colleges, Inc.	(81)	-	-	(81)
Actuarial adjustment	190	823	2,339	3,352
Donor redesignations between net asset categories	(1,027)	(4,548)	5,575	-
Change in net assets	20,031	35,657	15,406	71,094
Net assets at beginning of year	295,715	374,188	390,872	1,060,775
Net assets at end of year	$ 315,746	$ 409,845	$ 406,278	$ 1,131,869

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

CLAREMONT MCKENNA COLLEGE
STATEMENT OF ACTIVITIES

For the year ended June 30, 2017
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Student revenues	$ 87,708	$ -	$ -	$ 87,708
Less: Financial aid	(21,611)	-	-	(21,611)
Net student revenues (Note 16)	66,097	-	-	66,097
Private gifts and grants	3,356	18,230	3,670	25,256
Federal grants	1,183	-	-	1,183
Private contracts	700	-	-	700
Spending policy income	9,631	26,430	175	36,236
Other investment income	1,252	-	5	1,257
Other revenues	3,322	-	-	3,322
Release of net assets				
Restricted gifts	24,081	(24,081)	-	-
Restricted spending policy income	21,250	(21,250)	-	-
Annuity and life income	672	(672)	-	-
Total revenues	131,544	(1,343)	3,850	134,051
Expenses:				
Instruction	38,640	-	-	38,640
Research	9,382	-	-	9,382
Academic support	8,106	-	-	8,106
Student services	18,595	-	-	18,595
Institutional support	19,587	-	-	19,587
Auxiliary enterprises	21,208	-	-	21,208
Total expenses	115,518	-	-	115,518
Excess (Deficit) of revenues over expenses	16,026	(1,343)	3,850	18,533
Other changes in net assets:				
Realized and unrealized losses, net of spending allocation	15,455	49,554	1,647	66,656
Gain on sale of property	186	-	-	186
Realized gains (losses) on contributions receivable (Note 3)	-	1,118	(30)	1,088
Release of net assets				
Plant facilities	5,873	(5,873)	-	-
Transfers to the Claremont Colleges, Inc.	(27)	-	-	(27)
Actuarial adjustment	81	606	1,059	1,746
Donor redesignations between net asset categories	(801)	(4,854)	5,655	-
Change in net assets	36,793	39,208	12,181	88,182
Net assets at beginning of year	258,922	334,980	378,691	972,593
Net assets at end of year	$ 295,715	$ 374,188	$ 390,872	$ 1,060,775

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

CLAREMONT MCKENNA COLLEGE
STATEMENTS OF CASH FLOWS

For the years ended June 30, 2018 and 2017
(in thousands)

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 71,094	$ 88,182
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	10,704	10,599
Amortization and accretion expense	(571)	(572)
Loss (Gain) on disposal of plant facilities	16	(186)
Contribution of works of art	(8)	(4,894)
Increase in beneficial interest in trusts	(23)	(25)
Allowance for doubtful accounts	106	35
Discount on life income contract gifts	2,099	3,336
Realized and unrealized gain on investments	(74,838)	(111,958)
Non-cash gifts	(5,753)	(2,802)
Adjustment of actuarial liability for annuities payable	(1,691)	2,199
Decrease/(increase) in accounts and contributions receivable	(16,425)	7,942
Increase in prepaid expenses and deposits	(803)	(30)
(Decrease)/increase in accounts payable and accrued liabilities	435	(2,623)
(Decrease)/increase in funds held in trust for others	(1,032)	214
(Decrease)/increase in deposits and deferred revenues	(174)	207
Contributions restricted for long-term investments	(6,138)	(7,697)
Net cash used in operating activities	(23,002)	(18,073)
Cash flows from investing activities:		
Purchase of plant facilities	(12,937)	(5,861)
Proceeds from sales of plant facilities	-	866
Purchases of investments	(594,644)	(610,125)
Proceeds from sales of investments	632,976	633,390
Loans made to students and employees	(1,031)	(1,044)
Collection of student and employee loans	1,945	2,173
Net cash provided by investing activities	26,309	19,399
Cash flows from financing activities:		
Payments to annuity and life income beneficiaries	(6,276)	(6,443)
Investment income for annuity and life income investments	1,924	1,602
Principal payments for bonds and notes payable	(4,316)	(4,082)
Contributions restricted for life income contracts	1,239	2,732
Contributions restricted for endowment	4,330	4,191
Contributions restricted for plant expenditures and student loans	569	775
Decrease in government advances for student loans	(432)	(447)
Net cash used in financing activities	(2,962)	(1,672)
Net increase (decrease) in cash	345	(346)
Cash at beginning of year	563	909
Cash at end of year	$ 908	$ 563
Supplemental disclosure of cash flows:		
Interest paid	$ 7,755	$ 8,235
Supplemental disclosure of noncash financing activity:		
Capital lease obligation	$ 250	$ 350

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

June 30, 2018 and 2017

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. GAAP).

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. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

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 are 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, 2018 and 2017

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 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, 2018 and 2017. 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.

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 fair 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, 2018 and 2017, these cumulative gains totaled approximately $44,531,000 and $77,438,000, respectively. The Board of Trustees may, at its discretion, approve additional spending for special projects. 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 fair 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

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

Plant Facilities:

Plant facilities consist of property, plant, equipment and works of art which are stated at cost, representing the original purchase price or the fair 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 5 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, 2018 and 2017. 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, 2018 and 2017.

Redesignation of Net Assets:

Certain amounts previously received from donors have been transferred among net asset categories due to changes in donor designations and are reflected in the donor redesignations between net asset categories on the statements of activities.

Use of Estimates:

The preparation of financial statements in conformity with U.S. GAAP 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, 2018 and 2017

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 are subject to significant restrictions as to their transfer or disposition and are 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, global fixed income funds, and certain domestic and international equities are valued based on quoted market prices, and are therefore typically classified within Level 1.

Investments in certain debt securities are valued based on quoted market prices of comparable assets and are typically classified within Level 2.

Investments in hedge funds, private equity funds, other private investments, and certain investment funds focused on domestic and international equities and fixed income are held primarily through limited partnerships and comingled funds for which fair value is estimated using net asset value (NAV) reported by fund managers as a practical expedient.

Certain 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 value as determined by the investment managers.

June 30, 2018 and 2017
(in thousands)

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

Fair Value of Financial Instruments: *Continued*

The general partners and fund managers of the underlying investment partnerships generally value their investments at fair value and in accordance with US GAAP. 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 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, 2018 and 2017 are as follows:

	2018	2017
Student notes receivable	$ 7,728	$ 8,523
Federal loan funds	919	1,205
Other Claremont Colleges	1,554	822
Student accounts receivable	283	379
Grants and contracts receivable	350	679
Housing assistance notes receivable	3,422	3,110
Other	1,381	1,511
	15,637	16,229
Less allowance for doubtful accounts receivable	(702)	(596)
Net accounts and notes receivable	$ 14,935	$ 15,633

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%. An allowance for uncollectible contributions receivable is estimated based upon management's assessments of historical and expected net collections. The College evaluates collectability of contributions receivable on an annual basis, and writes off those deemed uncollectible.

June 30, 2018 and 2017
(in thousands)

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

Contributions receivable at June 30, 2018 and 2017 are expected to be realized as follows:

	2018	2017
Within one year	$ 25,867	$ 21,773
Between one year and five years	70,938	69,326
More than five years	43,724	41,669
	140,529	132,768
Less discount	(15,736)	(15,375)
Less allowance for doubtful contributions receivable	(176)	(263)
Net contributions receivable	$ 124,617	$ 117,130

Contributions receivable at June 30, 2018 and 2017 are intended for the following uses:

	2018	2017
Endowment	$ 45,573	$ 48,915
Plant	6,872	7,129
Other	72,172	61,086
Net contributions receivable	$ 124,617	$ 117,130

At June 30, 2018, 83.7% of the contributions receivable were due from three donors. At June 30, 2017, 81.2% of the contributions receivable were due from three donors.

At June 30, 2018 and 2017, the College had knowledge of conditional promises to give in the amount of $27,461 and $4,421, respectively. The promises will be recognized as revenue when the conditions are met.

Conditional promises to give at June 30, 2018 and 2017 are intended for the following uses:

	2018	2017
Endowed chairs for new and existing faculty positions	$ 1,211	$ 1,302
Academic programing and support	25,000	-
General purposes of the College	1,250	3,119
Net conditional promises to give	$ 27,461	$ 4,421

At June 30, 2018 and 2017, the College held beneficial interest in outside trusts of $424 and $401, 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.

June 30, 2018 and 2017
(in thousands)

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, 2018 and 2017:

	Pooled Investments Fund	
	2018	2017
Unit market value at end of year	$ 693.75	$ 668.58
Units owned:		
Unrestricted:		
Funds functioning as endowment	273,615	264,742
Temporarily restricted:		
Annuity and life income contracts and agreements	13,298	16,449
Endowment	60,571	60,679
Total temporarily restricted	73,869	77,128
Permanently restricted:		
Endowment	865,639	843,659
College loan investments	3,426	2,639
Annuity and life income contracts and agreements	45,303	45,065
Total permanently restricted	914,368	891,363
Total units	1,261,852	1,233,233

Investment income related to the College's pooled investments for the years ended June 30, 2018 and 2017, net of management and custody fees of $4,861 and $3,482, respectively, is as follows:

Amounts allocated in accordance with spending policy for pooled investments:	2018	2017
Net pooled investment income	$ 1,381	$ 2,638
Pooled investment gains appropriated	38,271	35,522
Total spending policy income and gains	39,652	38,160
Other investment income	2,468	1,257
Less amounts allocated to annuity and life income contracts and agreements	(1,924)	(1,924)
Total investment income	40,196	37,493
Realized and unrealized gains, net of spending allocation	29,660	67,744
Total investment returns	$ 69,856	$ 105,237

June 30, 2018 and 2017
(in thousands)

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

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. The following schedule summarizes the assets in pooled investments and the assets held as separate investments at June 30, 2018 and 2017:

	2018	2017
Cash equivalents	$ 19,395	$ 32,658
Cash equivalents - limited use (Note 12)	3,363	3,433
Domestic equities	224,139	223,186
International equities	195,903	193,892
Domestic treasuries	86,152	69,661
Global fixed income	37,451	38,277
Bank loans and mortgage securities	29,387	30,864
Private investments:		
Long/short equity	61,190	58,836
Absolute return funds	73,126	68,126
Private equity and venture capital	166,712	132,797
Real estate, energy, and timber	58,897	51,879
Total investments	$ 955,715	$ 903,609

By category:	2018	2017
Endowment and funds functioning as endowment:		
Pooled investments	$ 832,372	$ 781,623
Separately invested	2,934	2,740
Total endowment and funds functioning as endowment	835,306	784,363
Annuity and life income contracts:		
Pooled investments	40,654	41,127
Separately invested	19,392	21,990
Total annuity and life income contracts and agreements	60,046	63,117
Other:		
Pooled	2,377	1,765
Separately invested	57,986	54,364
Total other	60,363	56,129
Total by category	$ 955,715	$ 903,609

June 30, 2018 and 2017
(in thousands)

NOTE 5 - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS:

The following table presents the investments and beneficial interest in trusts carried on the Statements of Financial Position by level within the valuation hierarchy at June 30, 2018 and 2017:

	Level 1	Level 2	Level 3	Assets held at NAV or equivalent	2018
Cash equivalents	$ 19,342	$ 53	$ -	$ -	$ 19,395
Cash equivalents - limited use	3,363	-	-	-	3,363
Domestic equities	114,789	-	-	109,350	224,139
International equities	4,477	-	-	191,426	195,903
Domestic treasuries	-	86,152	-	-	86,152
Global fixed income	3,923	-	-	33,528	37,451
Bank loans and mortgage securities	-	-		29,387	29,387
Private investments:					
Long/short equity	-	-	-	61,190	61,190
Absolute return	-	-	-	73,126	73,126
Private equity and venture capital	-	-	-	166,712	166,712
Real estate, energy, and timber	-	-	1,470	57,427	58,897
Beneficial interest in trusts	-	-	424	-	424
Total	$ 145,894	$ 86,205	$ 1,894	$ 722,146	$ 956,139

	Level 1	Level 2	Level 3	Assets held at NAV or equivalent	2017
Cash equivalents	$ 32,601	$ 57	$ -	$ -	$ 32,658
Cash equivalents - limited use	3,433	-	-	-	3,433
Domestic equities	121,508	-	-	101,678	223,186
International equities	5,735	-	-	188,157	193,892
Domestic treasuries	-	69,661	-	-	69,661
Global fixed income	4,658	-	-	33,619	38,277
Bank loans and mortgage securities	-	-	-	30,864	30,864
Private investments:					
Long/short equity	-	-	-	58,836	58,836
Absolute return	-	-	-	68,126	68,126
Private equity and venture capital	-	-	-	132,797	132,797
Real estate, energy, and timber	-	-	720	51,159	51,879
Beneficial interest in trusts	-	-	401	-	401
Total	$ 167,935	$ 69,718	$ 1,121	$ 665,236	$ 904,010

June 30, 2018 and 2017
(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, 2018 and 2017:

	Real estate	Beneficial interest in trusts	Total
Balance at June 30, 2016	$ 764	$ 876	$ 1,640
Sales	(40)	(500)	(540)
Realized loss, net	(4)	-	(4)
Actuarial adjustment	-	25	25
Balance at June 30, 2017	720	401	1,121
Purchases	1,950	-	1,950
Sales	(1,008)	-	(1,008)
Realized loss, net	(192)	-	(192)
Actuarial adjustment	-	23	23
Balance at June 30, 2018	$ 1,470	$ 424	$ 1,894

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 Statements of Activities. 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.

The following table shows the fair value, unfunded commitments and redemption restrictions for investments reported at Net Asset Value at June 30, 2018:

	Fair Value at June 30, 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Domestic equities	$ 109,350	none	7 to 90 days	1 to 60 days	(1)
International equity funds	191,426	none	1 to 90 days	1 to 60 days	(1)
Global fixed income	33,528	none	Daily	5 to 10 days	(1)
Bank loans and mortgage securities	29,387	none	30 to 90 days	30 to 90 days	(1)
Long/short equity	61,190	none	30 days to 3 years	60 to 90 days	(2)
Absolute return	73,126	none	3 to 6 months	45 to 90 days	(2)
Private equity and venture capital	166,712	$ 108,683	N/A	N/A	(3)
Real estate, energy, and timber	57,427	50,102	N/A	N/A	(3)
Total	$ 722,146	$ 158,785			

June 30, 2018 and 2017
(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, 2018 and 2017 consists of the following:

	2018	2017
Land and land improvements	$ 35,413	$ 25,791
Buildings and permanent improvements	309,929	306,682
Equipment	27,194	26,976
Works of art	8,482	8,474
Equipment under capital lease	2,349	2,594
Property held for future use	15,520	15,074
Construction in progress	2,364	3,053
	401,251	388,644
Less accumulated depreciation	(115,532)	(105,400)
Net plant facilities	$ 285,719	$ 283,244

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 March 2023.

June 30, 2018 and 2017
(in thousands)

NOTE 7 - CAPITAL LEASE OBLIGATION: ***(continued)***

The annual capital lease obligation at June 30, 2018 was as follows:

Fiscal Years Ending June 30,	Lease Payments
2019	$ 449
2020	347
2021	279
2022	114
2023	24
Total payments	1,213
Less interest	(80)
Total capital lease obligation	$ 1,133

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, 2018 and 2017:

	2018	2017
Obligations incurred	$ -	$ -
Obligations settled	-	-
Accretion expense	33	31
Revisions in estimated cash flows	-	-
	33	31
Beginning balance	819	788
Ending balance	$ 852	$ 819

NOTE 9 - FUNDS HELD IN TRUST FOR OTHERS:

Funds held in trust for others totaled $2,851 and $3,883 at June 30, 2018 and 2017, respectively. These amounts represent the value of third-party remainder interests held in trust by the College.

NOTE 10 - LIFE INCOME AND ANNUITIES PAYABLE:

Life income and annuities payable of $48,199 and $50,911 at June 30, 2018 and 2017, 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, 2018 and 2017 also include $5,007 and $1,740, respectively, of releases to endowment within permanently restricted net assets.

June 30, 2018 and 2017
(in thousands)

NOTE 11 - BONDS AND NOTE PAYABLE:

At June 30, 2018 and 2017, bonds payable was comprised of the following:

	2018	2017
Bonds issued through California Educational Facilities Authority (CEFA):		
Series 2007	$ 10,345	$ 11,135
Series 2011	4,440	4,715
Series 2012	28,530	28,850
Series 2015	108,005	109,955
	151,320	154,655
Note issued through California Municipal Finance Authority (CMFA):		
2013 Tax-Exempt Loan	23,278	23,831
	174,598	178,486
Unamortized cost of issuance	(1,733)	(1,820)
Unamortized premium/(discount), net	14,400	15,090
Total bonds and note payable	$ 187,265	$ 191,756

The CEFA Series 2007 bonds were partially defeased through the issuance of CEFA Series 2015 bonds and the remaining Series 2007 bonds are due in 2038. Annual installments range from $240 in 2019 to $1,025 in 2038. Interest is payable semi-annually at a rate of 5.0%, at June 30, 2018. Bonds maturing after January 1, 2018 with principal balances totaling $11,135 are subject to mandatory redemption at the outstanding principal balance plus accrued interest.

The CEFA Series 2011 bonds are due in 2030. Annual installments range from $285 in 2019 to $480 in 2030. Interest is payable semi-annually at rates ranging from 4.0% to 5.3%, at June 30, 2018. 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.

The CEFA Series 2012 bonds are due in 2042. Annual installments range from $325 in 2019 to $22,260 in 2042. Interest is payable semi-annually at rates ranging from 2.3% to 4.0%, at June 30, 2018. 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.

The CEFA Series 2015 bonds are due in 2039. Annual installments range from $2,670 in 2019 to $8,210 in 2038. Interest is payable semi-annually at rates ranging from 4.0% to 5.0%, at June 30, 2018. Bonds maturing after January 1, 2035 with principal balances totaling $37,135 are subject to mandatory redemption at the outstanding principal balance plus accrued interest.

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 could make monthly draws through December 2016 and all funds were drawn as of February 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.

June 30, 2018 and 2017
(in thousands)

NOTE 11 - BONDS AND NOTE PAYABLE: *Continued*

Interest expense was $7,074 and $7,206 for the years ended June 30, 2018 and 2017, respectively.

The maturity of notes and bonds payable at June 30, 2018, is as follows:

Fiscal Years Ending June 30,	Principal Amount
2019	$ 4,092
2020	4,316
2021	4,559
2022	4,796
2023	5,049
Thereafter	151,786
	$ 174,598

The CMFA 2013 Tax Exempt Loan and the CEFA Series 2015, 2012, 2011, and 2007, 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, 2018 and 2017.

The College holds CEFA bonds that are reported at an amortized cost of $151,320 and $154,655 at June 30, 2018 and 2017, respectively, in the Statement of Financial Position. These CEFA bonds have an approximate fair value of $164,519 and $170,819 at June 30, 2018 and 2017, respectively. The College determined these CEFA bonds to be Level 2 measurements in the fair value hierarchy.

NOTE 12 - ASSETS WHOSE USE IS LIMITED:

Indenture requirements of bond financing (see Note 11, "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 recorded at fair value, which approximates fair value. Assets whose use is limited, which is included in investments, totaled $3,363 and $3,433, respectively, at June 30, 2018 and 2017.

June 30, 2018 and 2017
(in thousands)

NOTE 13 - EMPLOYEE BENEFIT PLANS:

The College participates, with other members of The Claremont Colleges (Note 18), 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, 2018 and 2017 totaled $4,585 and $4,478, respectively.

NOTE 14 - NET ASSETS:

At June 30, 2018 and 2017, net assets consists of the following:

	2018	2017
Unrestricted:		
For operations and designated purposes	$ 7,794	$ 9,528
Housing assistance and student loans	4,686	4,319
Board designated endowment funds	189,843	177,036
Plant facilities	113,423	104,832
Total unrestricted	$ 315,746	$ 295,715
Temporarily restricted:		
Restricted for specific purposes	$ 102,193	$ 86,443
Annuity and life income contracts and agreements	3,626	3,186
Term endowments	62,975	66,090
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:		
Without purpose restriction	19,386	18,184
With purpose restriction	221,665	200,285
Total temporarily restricted	$ 409,845	$ 374,188
Permanently restricted:		
Student loans	$ 11,868	$ 11,933
Annuity and life income contracts and agreements	7,266	7,256
Endowment	387,144	371,683
Total permanently restricted	$ 406,278	$ 390,872

June 30, 2018 and 2017
(in thousands)

NOTE 15 - 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, 2018 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018
Investment returns:				
Earned income	$ 1,380	$ -	$ 617	$ 1,997
Change in realized and unrealized net appreciation of investments	45,403	23,050	241	68,694
Net investment return	46,783	23,050	858	70,691
Endowment returns reinvested (or distributed for operations)	(37,177)	4,309	60	(32,808)
Net investment returns	9,606	27,359	918	37,883
Other changes in endowed equity:				
Gifts	-	3,609	5,880	9,489
Other changes	3,201	(11,501)	8,663	363
Total other changes in endowed equity	3,201	(7,892)	14,543	9,852
Net change in endowed equity	12,807	19,467	15,461	47,735
Endowed equity, beginning of year	177,036	284,559	371,683	833,278
Endowed equity, end of year	$ 189,843	$ 304,026	$ 387,144	$ 881,013

At June 30, 2018, endowed equity consists of the following assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018
Contributions receivable, net of discount	$ -	$ 38,222	$ 7,351	$ 45,573
Other assets	-	-	134	134
Investments	189,843	265,804	379,659	835,306
Total endowed equity	$ 189,843	$ 304,026	$ 387,144	$ 881,013

June 30, 2018 and 2017
(in thousands)

NOTE 15 - ENDOWMENT: ***Continued***

Changes in the College's endowment for the year ended June 30, 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017
Investment returns:				
Earned income	$ 2,637	$ -	$ 33	$ 2,670
Change in realized and unrealized net appreciation of investments	50,536	49,339	235	100,110
Net investment return	53,173	49,339	268	102,780
Endowment returns reinvested (or distributed for operations)	(35,971)	4,181	93	(31,697)
Net investment returns	17,202	53,520	361	71,083
Other changes in endowed equity:				
Gifts	-	1,895	3,437	5,332
Other changes	2,644	(11,246)	6,725	(1,877)
Total other changes in endowed equity	2,644	(9,351)	10,162	3,455
Net change in endowed equity	19,846	44,169	10,523	74,538
Endowed equity, beginning of year	157,190	240,390	361,160	758,740
Endowed equity, end of year	$ 177,036	$ 284,559	$ 371,683	$ 833,278

At June 30, 2017, endowed equity consists of the following assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017
Contributions receivable, net of discount	$ -	$ 41,493	$ 7,422	$ 48,915
Investments	177,036	243,066	364,261	784,363
Total endowed equity	$ 177,036	$ 284,559	$ 371,683	$ 833,278

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 $259 and $369 at June 30, 2018 and 2017, respectively. Deficiencies for donor-restricted endowment funds were recorded as a reduction in unrestricted endowments.

June 30, 2018 and 2017
(in thousands)

NOTE 16 - NET STUDENT REVENUES:

Student revenues for the years ended June 30, 2018 and 2017 consist of the following:

	2018	2017
Tuition and fees	$ 72,101	$ 69,068
Room and board	19,017	18,640
Gross student revenues	91,118	87,708
Less financial aid:		
Sponsored	(17,846)	(17,098)
Unsponsored	(5,628)	(4,513)
Total financial aid	(23,474)	(21,611)
Net student revenues	$ 67,644	$ 66,097

"Sponsored" 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 17 - INSTITUTIONAL SUPPORT FUNDRAISING EXPENSE:

Included in Institutional Support expenses are $4,807 and $4,570 of expenditures related to fundraising for the years ended June 30, 2018 and 2017, respectively.

NOTE 18 - 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. The Claremont Colleges, Inc. (formerly 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, 2018 and 2017 totaled $6,947 and $6,097, respectively.

During the fiscal year ended June 30, 2018, the College formed Claremont Investment Fund (the “Fund”), a California nonprofit public benefit corporation organized exclusively for charitable and education purposes within the meaning of IRC Section 501(C)(3). The Fund is a Type I supporting organization under IRC Section 509(a)(3) that shall be operated exclusively for the benefit of the College and those members of The Claremont Colleges (collectively, the “Supported Organizations”) that may be approved by the College’s Board of Trustees from time to time. On July 1, 2018, the Supported Organizations began pooling their endowment and other investment assets in the Fund in a diversified investment strategy approved by the College’s Board of Trustees.

June 30, 2018 and 2017
(in thousands)

NOTE 19 - 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, 2018 and 2017 totaled $20,940 and $21,063, respectively.

The College receives contributions and promises to give from members of the Board of Trustees. For the years ended June 30, 2018 and 2017, the College received $25,216 and $10,210, respectively, of total private gifts and grants from members of the Board of Trustees. For the years ended June 30, 2018 and 2017, private gifts and grants from the Board of Trustees were comprised approximately of 78% and 80% from one and three members, respectively. At June 30, 2018 and 2017, contributions receivable from members of the Board of Trustees totaled $112,369 and $105,272, respectively.

NOTE 20 - 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 change in net assets of the College.

NOTE 21 - 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 25, 2018, which corresponds to the date when the financial statements are available for issuance.

For additional copies, please contact
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