Claremont McKenna College

2018–2019 Financial Report

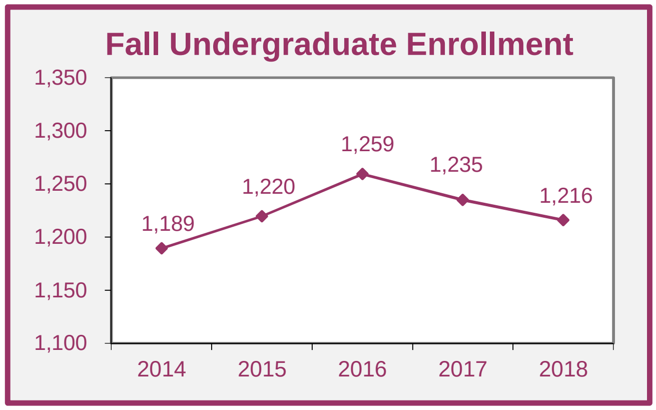
CLAREMONT MCKENNA COLLEGE
ANNUAL FINANCIAL REPORT

2019 and 2018

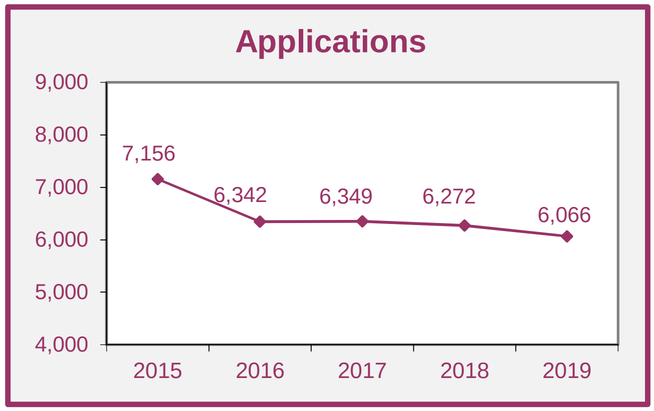
CONTENTS

Financial Highlights

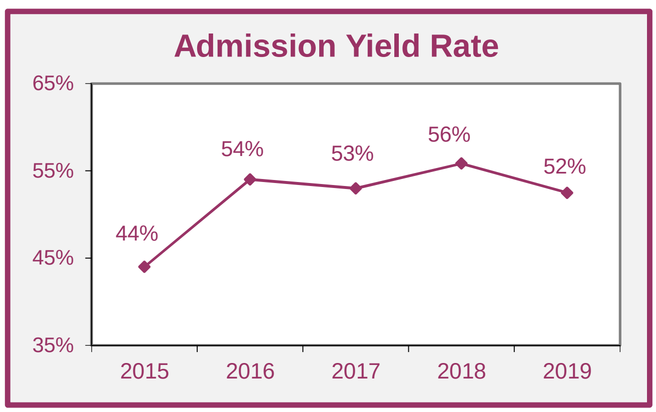
- Fall 2018 FTE enrollment in Claremont was in line with the College's target of 1,220. Prior years reflect planned increases in enrollment due to additional housing capacity on campus as well as years with high admission yield rates. FTE enrollment, including off-campus and study-abroad programs, was 1,313.



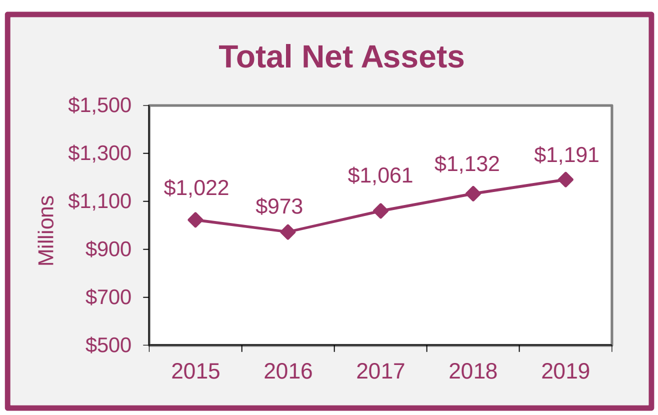
- Applications for admission in the Fall of 2019 declined slightly to 6,066. The College's selectively rate for freshman admission (acceptances divided by total applications) remained low at 10.3%.



- The overall yield rate continued to be strong, at 52% for the Fall of 2019. The total number of new freshmen entering the College in the Fall of 2019 was 328 students.

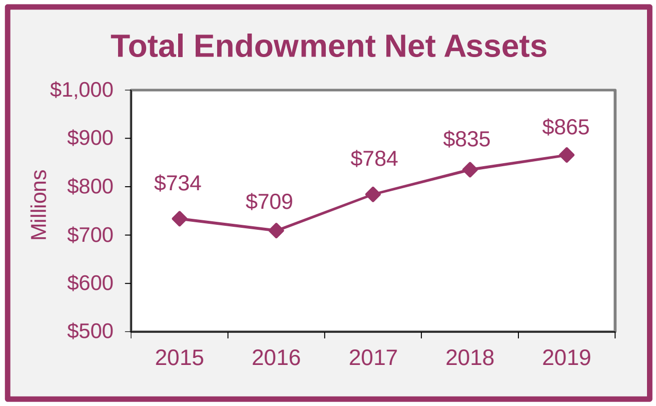


- Total net assets increased by 5.2%, primarily driven by investment performance, decreasing liabilities, and strong contributions.

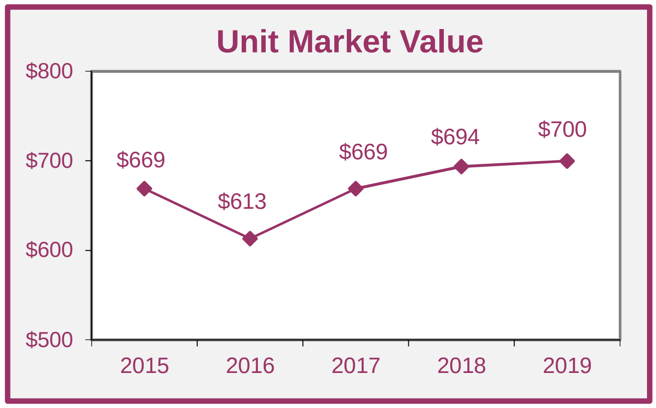


Financial Highlights

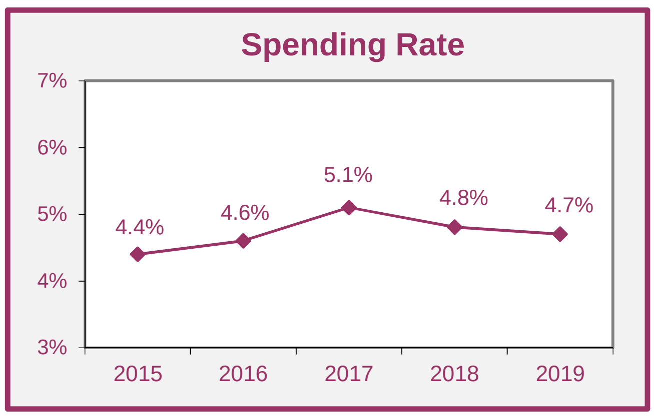
- Total investments increased by 3.6% in 2019, after fees and spending for operations. The net increase was primarily attributed to new endowment gifts and realized and unrealized gains on investments.



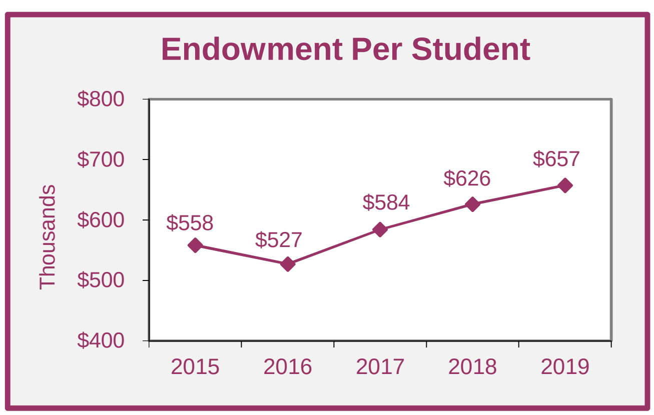
- The market value per unit in the College's investment pool increased by 0.9%. Unit market value reflects general market performance after spending for operations.



- 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 2018, which became the beginning of the year value for 2019.

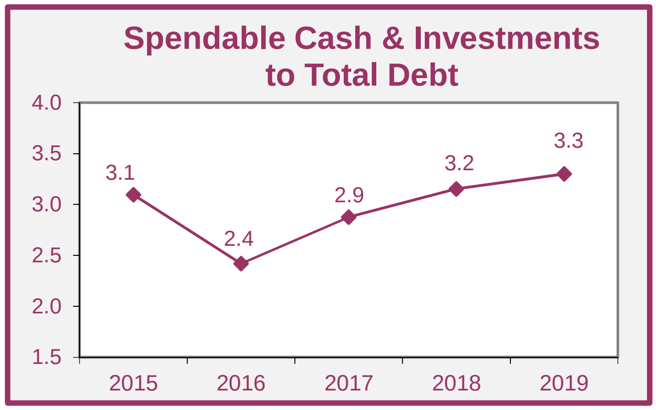


- Endowment per student increased as a result of the increased market value of the endowment as well as a decrease in total in-Claremont enrollment closer in line with the College's target of 1,220.

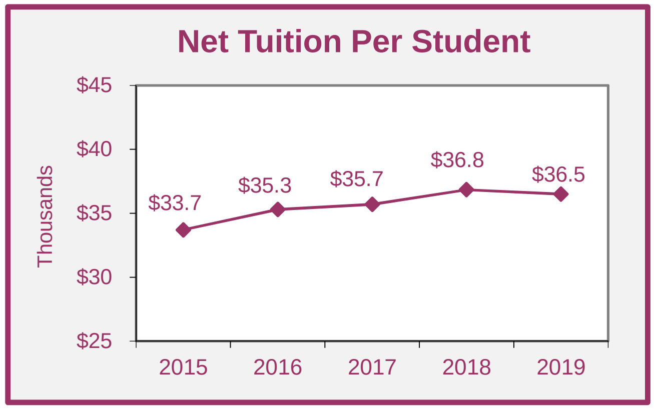


Financial Highlights

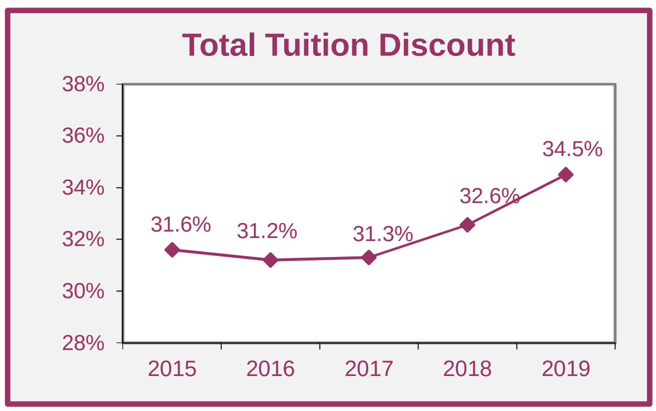
- Total spendable cash and investments to debt increased as a result of paying down principal in combination with increased investment assets. The College's ratio of 3.3 is slightly lower than the 2018 median value of 3.53 for Moody's Aa private institutions. Moody's assigned a rating of Aa2 to CMC's Series 2015 Revenue Bonds.



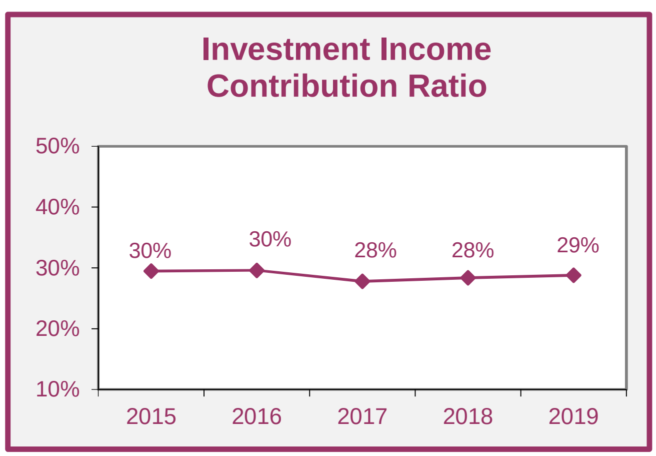
- The College's net tuition per student decreased slightly due to a planned increase in the total tuition discount. This dollar level places CMC higher than the 2018 median net tuition per student of $30,623 for Moody's Aa private institutions.



- 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 2018 median discount of 38.1% for Moody's Aa private institutions.

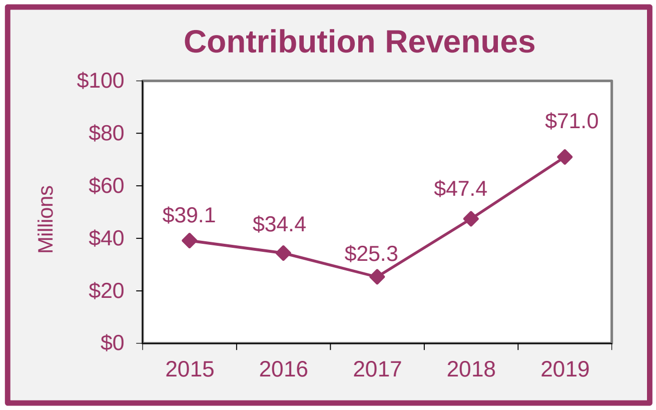


- CMC's endowment and a prudent spending policy produce sufficient investment income to make a significant contribution toward covering the operational costs of a CMC education. The investment income contribution ratio has remained steady over the past five years.

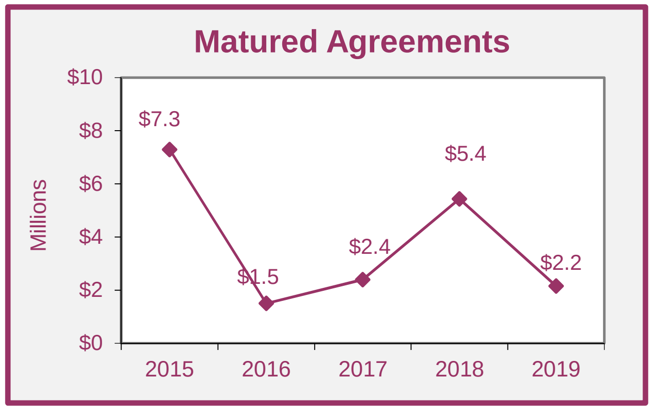


Financial Highlights

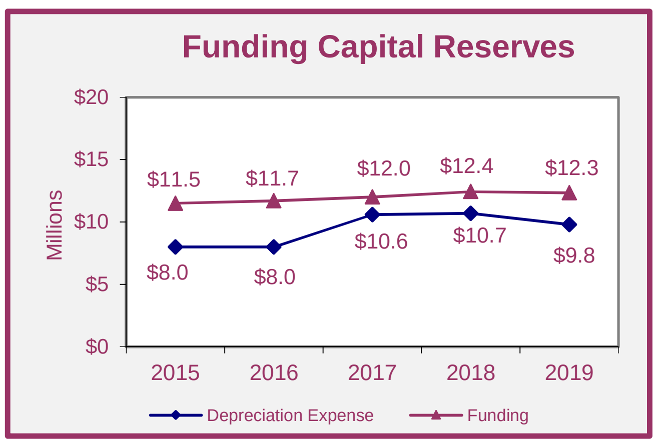
- Total contribution revenues were strong at $71 million, reflecting successful fundraising efforts for both unrestricted and restricted private gifts and grants.



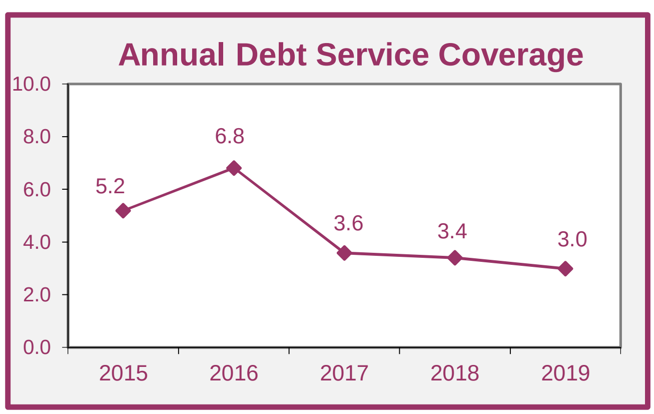
- Although unpredictable from year to year, matured annuity and life income agreements continue to provide significant resources to the College's endowment and operating funds.



- CMC continues its policy of funding capital reserves for repairs, life cycle replacements, and modernization of 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 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) decreased in 2019 due to operating expense growth. Debt service coverage decreased in 2017 due to a debt restructuring which increased annual debt service. CMC's ratio is higher than the 2018 median value of 2.96 for Moody's Aa private institutions.



Office of the Treasurer

October 24, 2019

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

Dear Members of the Board:

The College finished fiscal year 2018-19 in a strong financial position led by solid investment returns, decreased debt, and successful fundraising. Contributions have been focused on advancing three key institutional priorities, including reinforcing the founding vision of the College to educate students for thoughtful and productive lives and responsible leadership, expanding student opportunities, and strengthening CMC's programs in the sciences, computer science, and data science.

The College welcomed another outstanding incoming class in Fall of 2019, composed of 328 first-year and 22 transfer students hailing from 33 states and 28 countries. The College continues to be one of the most selective liberal arts institutions in the country, with an admit rate of just over 10% for Fall of 2019. The overall yield rate of 52% of admitted students represents the fourth consecutive year in which the yield rate has exceeded 50%.

Total student enrollment in Claremont has hovered around 1,220, consistent with the College's budgeted target enrollment. Residence halls capacity continues to be maximized with most students preferring to live on campus. Capital improvements were made to student housing during summer 2019 including the replacement of approximately 500 mid-quad dormitory beds with self-lofting functioning beds, placement of new microfridge units in all residence halls, installation of new clay roof tile at all four north-quad dormitories, and renovation of the student apartments parking lot.

A record 425 CMC students received summer internship and experiential learning grants through the Soll Center for Student Opportunity, up 24% for a second year in a row. The growth in internship and experiential learning grants has been made possible through a transformative $25 million pledge received 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.

On the College's financials, net assets without donor restrictions grew by 3.8%, ending the year at $328 million. The largest increases in net assets without donor restrictions were from growth in board-designated endowment funds and plant facilities. Total net assets grew by 5.2%, ending the year at $1.19 billion.

Members of the Board of Trustees
October 24, 2019

Consolidated Statements of Financial Position

During the prior fiscal year, the College formed Claremont Investment Fund (the “Fund”), a type I supporting organization under Internal Revenue Code Section 509(a)(3). The Fund is operated exclusively for the benefit of CMC and other members of The Claremont Colleges (collectively, the “Supported Organizations”) that may be approved by CMC’s Board of Trustees. Effective July 1, 2018, the Supported Organizations began pooling their endowment and other investment assets in the Fund in a diversified investment strategy approved by CMC’s Board of Trustees. The enclosed statements represent the inaugural year of consolidated financial results for CMC and the Fund.

Total assets as of June 30, 2019 increased for two reasons. First, the College received a large contribution receivable payable over multiple years in support of integrated sciences. Second, investment assets grew due to the pooling of other investment assets from Supported Organizations in the Fund. A corresponding “funds held in trust for others” liability of $328 million represents the non-CMC Supported Organizations’ portion of investment portfolio as of year-end. Despite challenges in the financial markets during the year, the College ended the year with positive realized and unrealized gains, net of spending, of $8.7 million. CMC’s endowment ended the year at a record high of $865 million. The Fund’s trailing 1-year return as of June 30, 2019 was 6.1%, net of fees. This compared favorably to the Fund’s 5.4% policy custom benchmark return over the same period.

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 for fiscal year 2018-19 was 4.7%, 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 4.7%. Investment income, in the form of spending distributions from the endowment, contributes approximately 29% toward funding the College’s operating expenses.

Changes to plant facilities assets were modest during 2019, with approximately $8 million of assets placed into service. The College continued its practice of annual set-asides to capital reserves to fund future renovations, repairs and maintenance of facilities. Total funding of capital reserves during 2019 was $12.3 million versus total annual depreciation expense of $9.8 million.

Total bonds and notes payable decreased 2.5% 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 (a measure of the ability to make debt service payments from annual operations) decreased to 3.0 times as of June 30, 2019 primarily due to growth in operating expenses. CMC’s ratio is consistent with the 2018 median value of 2.96 for Moody’s Investor Services’ Aa rated private institutions.

Consolidated Statements of Activities

The statement of activities provides greater detail of the changes in net assets during the fiscal year. Total revenues increased by 15.6%, led primarily by increases in private gifts and grants with donor restrictions. Total expenses increased by 4.9% over the prior year, with varying degrees of changes in individual functional expense line items. The most significant changes in functional expenses related to student services due to an expansion of sponsored internships funded through donor restricted gifts, as well as planned enhancements made to CMC's public safety, security, and emergency management program.

Net tuition per student decreased by -1% due to planned growth in the tuition discount rate to 34.5%, up from 32.6% in the prior year. With growth in the discount rate, the unsponsored portion of the financial aid budget (the portion funded through unrestricted resources such as tuition and other revenue) has steadily decreased over the past 10 years. 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 through initiatives such as the Kravis Opportunity Fund and the Scholar Community Program.

The College received approximately $71 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 Consolidated Statements of Activities incorporates actuarial adjustments for planned gifts as well as approximately $19 million in revenue related to net additional contributions receivable, recognized at present value. Spending policy income increased 4.9% 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 $57.1 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 $59.2 million. Within net assets without donor restrictions, prior to other changes in net assets, CMC ended the year with a positive excess of revenues over expenses of $12.7 million.

Consolidated Statements of Cash Flows

Net cash flows increased by $230,000 in fiscal year 2018-19. The net cash used in operating activities of $17 million was offset by net cash provided by investing activities of $4 million and net cash provided by financing activities of $13 million. Net cash provided by financing activities was influenced by increases in endowment contributions. Operating cash reserves are 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

Despite challenges in the financial markets, CMC experienced impressive growth in both assets and revenues during 2018-19. Growth continues to be fueled by the extraordinary support and investment by alumni, trustees, and donors in CMC's vision. Academic programs and student services support continue to be enhanced, perpetuating an increasingly high demand for admission. In response to the economic environment, CMC remains vigilant in its planning and budgeting efforts. While we cannot predict when or how severely a financial downturn may occur or its complete set of impacts on the College, we continue to improve our readiness by understanding the financial areas where we are most vulnerable and employing strategies to strengthen our financial resilience.

Respectfully submitted,

Erin Watkins

Erin Watkins
Associate Vice President for Finance and Acting Treasurer

MOSSADAMS

Report of Independent Auditors

The Board of Trustees
Claremont McKenna College and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Claremont McKenna College and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Claremont McKenna College and Subsidiaries as of June 30, 2019 and 2018, and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Claremont McKenna College and Subsidiaries adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of the standard resulted in additional footnotes disclosures and changes to the classification of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

Also as discussed in Note 1 to the financial statements, the College adopted *Topic 606 – Revenue from Contracts with Customers* using the modified retrospective method applied to all contracts. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Los Angeles, California
October 24, 2019

June 30, 2019 and 2018
(in thousands)

	2019	2018
ASSETS		
Cash	$ 1,138	$ 908
Accounts and notes receivable, net (Note 2)	13,424	14,935
Prepaid expenses and deposits	5,920	6,393
Contributions receivable, net (Note 3)	143,883	124,617
Beneficial interest in trusts (Note 3)	423	424
Investments (Note 4)	1,323,325	955,715
Plant facilities, net (Note 6)	284,700	285,719
Total assets	$ 1,772,813	$ 1,388,711
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 15,152	$ 13,599
Funds held in trust for others (Note 9)	331,274	2,851
Deposits and deferred revenues	2,313	2,011
Life income and annuities payable (Note 10)	47,704	48,199
Capital lease obligation (Note 7)	990	1,133
Bonds and note payable (Note 11)	182,569	187,265
Government advances for student loans	848	932
Asset retirement obligation (Note 8)	885	852
Total liabilities	581,735	256,842
Net Assets (Note 13):		
Without donor restriction	327,891	315,746
With donor restriction	863,187	816,123
Total net assets	1,191,078	1,131,869
Total liabilities and net assets	$ 1,772,813	$ 1,388,711

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

CLAREMONT MCKENNA COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2019
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Student revenues	$ 92,104	$ -	$ 92,104
Less: Financial aid	(25,201)	-	(25,201)
Net student revenues (Note 16)	66,903	-	66,903
Private gifts and grants	3,819	67,148	70,967
Federal grants	1,147	-	1,147
Private contracts	780	-	780
Spending policy income	10,530	29,041	39,571
Other investment income, net	1,816	(29)	1,787
Other revenues	3,365	-	3,365
Release of net assets			
Restricted gifts	26,684	(26,684)	-
Restricted spending policy income	24,424	(24,424)	-
Annuity and life income	658	(658)	-
Total revenues	140,126	44,394	184,520
Expenses:			
Instruction	42,011	-	42,011
Research	9,826	-	9,826
Academic support	9,039	-	9,039
Student services	23,033	-	23,033
Institutional support	22,410	-	22,410
Auxiliary enterprises	21,150	-	21,150
Total expenses	127,469	-	127,469
Excess of revenues over expenses	12,657	44,394	57,051
Other changes in net assets:			
Realized and unrealized gains, net of spending allocation	3,115	5,629	8,744
Realized losses on contributions receivable	-	(4,550)	(4,550)
Release of net assets for plant facilities	387	(387)	-
Transfers to other Claremont Colleges	(2,811)	-	(2,811)
Actuarial adjustment	(32)	807	775
Donor redesignations between net asset classes	(1,171)	1,171	-
Change in net assets	12,145	47,064	59,209
Net assets at beginning of year	315,746	816,123	1,131,869
Net assets at end of year	$ 327,891	$ 863,187	$ 1,191,078

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

CLAREMONT MCKENNA COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES

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

	Without Donor Restrictions	With Donor Restrictions	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	41,735	47,390
Federal grants	910	-	910
Private contracts	814	-	814
Spending policy income	10,115	27,613	37,728
Other investment income, net	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	24,681	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	24,681	38,179
Other changes in net assets:			
Realized and unrealized gains, net of spending allocation	6,717	23,287	30,004
Loss on sale of property	(16)	-	(16)
Realized losses on contributions receivable	-	(344)	(344)
Release of net assets for plant facilities	750	(750)	-
Transfers to other Claremont Colleges	(81)	-	(81)
Actuarial adjustment	190	3,162	3,352
Donor redesignations between net asset categories	(1,027)	1,027	-
Change in net assets	20,031	51,063	71,094
Net assets at beginning of year	295,715	765,060	1,060,775
Net assets at end of year	$ 315,746	$ 816,123	$ 1,131,869

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

CLAREMONT MCKENNA COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2019 and 2018
(in thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 59,209	$ 71,094
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	9,794	10,704
Amortization and accretion expense	(570)	(571)
Loss (Gain) on disposal of plant facilities	-	16
Contribution of works of art	-	(8)
Increase in beneficial interest in trusts	1	(23)
Allowance for doubtful accounts	264	106
Discount on life income contract gifts	2,600	2,099
Realized and unrealized gain on investments	(53,754)	(74,838)
Non-cash gifts	(1,785)	(5,753)
Contributions restricted for long-term investments	(21,588)	(6,138)
Adjustment of actuarial liability for annuities payable	(624)	(1,691)
Increase in accounts and contributions receivable	(23,824)	(16,425)
Increase/(decrease) in prepaid expenses and deposits	473	(803)
Increase in accounts payable and accrued liabilities	1,554	435
(Decrease)/increase in funds held in trust for others	10,872	(1,032)
(Decrease)/increase in deposits and deferred revenues	302	(174)
Net cash used in operating activities	(17,076)	(23,002)
Cash flows from investing activities:		
Purchase of plant facilities	(8,467)	(12,937)
Purchases of investments	(1,018,791)	(594,644)
Proceeds from sales of investments	1,031,005	632,976
Loans made to students and employees	(1,163)	(1,031)
Collection of student and employee loans	1,890	1,945
Net cash provided by investing activities	4,474	26,309
Cash flows from financing activities:		
Payments to annuity and life income beneficiaries	(6,024)	(6,276)
Investment income for annuity and life income investments	1,896	1,924
Principal payments for bonds and notes payable	(4,543)	(4,316)
Contributions restricted for life income contracts	2,380	1,239
Contributions restricted for endowment	16,050	4,330
Contributions restricted for plant expenditures and student loans	3,158	569
Decrease in government advances for student loans	(85)	(432)
Net cash provided/(used) in financing activities	12,832	(2,962)
Net increase in cash	230	345
Cash at beginning of year	908	563
Cash at end of year	$ 1,138	$ 908
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 7,597	$ 7,755
Capital assets acquired by capital lease	$ 308	$ 250
Transfer of securities recorded in funds held in trust for others	$ 299,806	$ -

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

June 30, 2019 and 2018
(In thousands)

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 20), 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 consolidated financial statements include the College and all other entities in which the College has significant financial interest and control. All material intercompany transactions and balances between the College and its affiliates have been eliminated in consolidation.

The following accounting policies of the College are in accordance with those generally accepted for colleges and universities:

Basis of Presentation:
The accompanying consolidated 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 consolidated financial statements present information regarding the College's financial position and activities according to two categories of net assets: without donor restrictions and with donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions that are either to be maintained in perpetuity by the College or subject to restrictions that will be met either by actions of the College or the passage of time.

Revenue Recognition:
Student tuition and fees revenues are recognized pro-rata over the applicable period of instruction. A contract is entered into with a student and covers a course or semester. Revenue recognition occurs once a student starts attending a course. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. The College determined there are no costs that are capitalized to obtain or to fulfill a contract with a customer.

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 net assets without donor restriction, 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, 2019 and 2018
(In thousands)

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 net assets without donor restriction. 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. Contributions of cash or other assets received for the acquisition of long-lived assets are released from restriction when the long-lived assets are placed into service.

Allocation of Certain Expenses:
Expenses are generally reported as decreases in net assets without donor restrictions. The Consolidated 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, investments and receivables. 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, 2019 and 2018. 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.

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 net assets without donor restriction unless their use restricted by explicit donor stipulation or by law. Investment income is reported net of management and custody fees. 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.

June 30, 2019 and 2018
(In thousands)

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

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. 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 net assets with donor restrictions 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 is classified in net assets with donor restriction 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

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. Land, works of art and construction in progress are not depreciated. 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, 2019 and 2018. 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.

June 30, 2019 and 2018
(In thousands)

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

Assets Held in Trust for Others:
Funds held in trust for others consists of investments held by the College as a custodian for another member of the Claremont Colleges and the value of third-party remainder interest held in trust by the College. Investments held for others are included in the College's investment portfolio. Upon written notification, investments held for others may be withdrawn, subject to certain limitations as established in a participation agreement with the other member of the Claremont Colleges.

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 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, 2019 and 2018.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted. The Act impacts the College through the addition of an excise tax on net investment income. The overall impact of the Act is being assessed by the College's management, however, it is not expected to have a material effect on the financial position or change in net assets of the College.

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 Consolidated Statements of Activities.

Use of Estimates:
The preparation of consolidated 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, 2019 and 2018
(In thousands)

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 global developed equities are valued based on quoted market prices, and are therefore typically classified within Level 1.

Investments in certain cash equivalents and domestic treasuries 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 consolidated 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, 2019 and 2018
(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.

New Accounting Pronouncements:
In 2019, the College adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 - Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting. The standard requires the College to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions, among other requirements.

In 2019, the College adopted the provisions of FASB ASU 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. There was no material impact to the financial statements as a result of adoption. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

June 30, 2019 and 2018
(In thousands)

NOTE 2 - ACCOUNTS AND NOTES RECEIVABLE:

Accounts and notes receivable at June 30, 2019 and 2018 are as follows:

	2019	2018
Student notes receivable	$ 7,023	$ 7,728
Federal loan funds	741	919
Other Claremont Colleges	871	1,554
Student accounts receivable	247	283
Grants and contracts receivable	402	350
Housing assistance notes receivable	3,578	3,422
Other	1,528	1,381
	14,390	15,637
Less allowance for doubtful accounts receivable	(966)	(702)
Net accounts and notes receivable	$ 13,424	$ 14,935

NOTE 3 - CONTRIBUTIONS RECEIVABLE AND BENEFICIAL INTEREST IN TRUSTS:

Unconditional promises to give are included in the consolidated 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.

Contributions receivable at June 30, 2019 and 2018 are expected to be realized as follows:

	2019	2018
Within one year	$ 25,472	$ 25,867
Between one year and five years	83,202	70,938
More than five years	53,046	43,724
	161,720	140,529
Less discount	(17,236)	(15,736)
Less allowance for doubtful contributions receivable	(601)	(176)
Net contributions receivable	$ 143,883	$ 124,617

Contributions receivable at June 30, 2019 and 2018 are intended for the following uses:

	2019	2018
Endowment	$ 46,446	$ 45,573
Plant	36,512	6,872
Other	60,925	72,172
Net contributions receivable	$ 143,883	$ 124,617

At June 30, 2019 and 2018, 84.3% and 83.7% of contributions receivable were due from four and three donors, respectively.

June 30, 2019 and 2018
(In thousands)

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

At June 30, 2019 and 2018, the College had knowledge of conditional promises to give in the amount of $22,908 and $27,461, respectively. The promises will be recognized as revenue when the conditions are met.

Conditional promises to give at June 30, 2019 and 2018, are intended for the following uses:

	2019	2018
Endowed chairs for new and existing faculty positions	$ 1,142	$ 1,211
Academic programing and support	20,000	25,000
General purposes of the College	1,766	1,250
Net conditional promises to give	$ 22,908	$ 27,461

At June 30, 2019 and 2018, the College held beneficial interest in outside trusts of $423 and $424, 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 fair 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 net assets with donor restrictions 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.

NOTE 4 - INVESTMENTS:

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, 2019 and 2018:

	2019	2018
Cash equivalents	$ 50,284	$ 19,395
Cash equivalents - limited use (Note 12)	3,292	3,363
Global developed equity	549,040	420,042
Domestic treasuries	117,683	86,152
Global fixed income	81,852	66,838
Private investments:		
Long/short equity	99,152	61,190
Absolute return funds	90,331	73,126
Private equity and venture capital	268,727	173,571
Real estate, energy, and timber	62,964	52,038
Total investments	$ 1,323,325	$ 955,715

June 30, 2019 and 2018
(In thousands)

NOTE 5 - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS:

The following tables summarize the valuation of the College's assets and liabilities according to the fair value hierarchy levels at June 30, 2019 and 2018:

	Level 1	Level 2	Level 3	Assets held at NAV or equivalent	2019
Financial Assets:					
Cash equivalents	$ 50,284	$ -	$ -	$ -	$ 50,284
Cash equivalents - limited use	3,292	-	-	-	3,292
Global developed equity	106,811	-	-	442,229	549,040
Domestic treasuries	-	117,683	-	-	117,683
Global fixed income	3,986	-	-	77,866	81,852
Private investments:					
Long/short equity	-	-	-	99,152	99,152
Absolute return	-	-	-	90,331	90,331
Private equity and venture capital	-	-	-	268,727	268,727
Real estate, energy, and timber	-	-	1,510	61,454	62,964
Beneficial interest in trusts	-	-	423	-	423
Total financial assets at fair value	$ 164,373	$ 117,683	$ 1,933	$ 1,039,759	$ 1,323,748
Financial Liabilities:					
Funds held in trust for others	$ -	$ 328,459	$ -	$ -	$ 328,459

	Level 1	Level 2	Level 3	Assets held at NAV or equivalent	2018
Financial Assets					
Cash equivalents	$ 19,342	$ 53	$ -	$ -	$ 19,395
Cash equivalents - limited use	3,363	-	-	-	3,363
Global developed equity	119,266	-	-	300,776	420,042
Domestic treasuries	-	86,152	-	-	86,152
Global fixed income	3,923	-	-	62,915	66,838
Private investments:					
Long/short equity	-	-	-	61,190	61,190
Absolute return	-	-	-	73,126	73,126
Private equity and venture capital	-	-	-	173,571	173,571
Real estate, energy, and timber	-	-	1,470	50,568	52,038
Beneficial interest in trusts	-	-	424	-	424
Total financial assets at fair value	$ 145,894	$ 86,205	$ 1,894	$ 722,146	$ 956,139
Financial Liabilities:					
Funds held in trust for others	$ -	$ -	$ -	$ -	$ -

June 30, 2019 and 2018
(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, 2019 and 2018:

	Real estate	Beneficial interest in trusts	Total
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
Purchases	790	-	790
Sales	(750)	-	(750)
Actuarial adjustment	-	(1)	(1)
Balance at June 30, 2019	$ 1,510	$ 423	$ 1,933

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 Consolidated 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, 2019:

	Fair Value at June 30, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Global developed equity	$ 442,229	none	1 to 90 days	1 to 60 days	(1)
Global fixed income	77,866	none	1 to 90 days	5 to 90 days	(1)
Long/short equity	99,152	none	1 to 36 months	60 to 90 days	(2)
Absolute return	90,331	none	3 to 6 months	45 to 90 days	(2)
Private equity and venture capital	268,727	$ 143,645	N/A	N/A	(3)
Real estate, energy, and timber	61,454	66,308	N/A	N/A	(3)
Total	$ 1,039,759	$ 209,953			

(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.

June 30, 2019 and 2018
(In thousands)

NOTE 5 - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS: Continued

(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, 2019 and 2018 consists of the following:

	2019	2018
Land and land improvements	$ 36,066	$ 35,413
Buildings and permanent improvements	315,719	309,929
Equipment	28,467	27,194
Works of art	8,482	8,482
Equipment under capital lease	2,214	2,349
Property held for future use	15,520	15,520
Construction in progress	3,115	2,364
	409,583	401,251
Less accumulated depreciation	(124,883)	(115,532)
Net plant facilities	$ 284,700	$ 285,719

NOTE 7 - CAPITAL LEASE OBLIGATION:

The College entered into capital lease obligations to finance the acquisition of certain equipment. The corresponding obligations are due in monthly and quarterly installments with maturities through March 2024.

The annual capital lease obligation is as follows:

Fiscal Years Ending June 30,	Lease Payments
2020	$ 419
2021	350
2022	185
2023	95
2024	16
Total payments	1,065
Less interest	(75)
Total capital lease obligation	$ 990

June 30, 2019 and 2018
(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, 2019 and 2018:

	2019	2018
Obligations incurred	$ -	$ -
Obligations settled	-	-
Accretion expense	33	33
Revisions in estimated cash flows	-	-
	33	33
Beginning balance	852	819
Ending balance	$ 885	$ 852

NOTE 9 - FUNDS HELD IN TRUST FOR OTHERS:

At June 30, 2019 and 2018 funds held in trust for others consists of the following:

	2019	2018
College held third party remainder interests held in trust	$ 2,815	$ 2,851
Other Claremont Colleges' interest in investment portfolio	328,459	-
Total funds held in trust for others	$ 331,274	$ 2,851

NOTE 10 - LIFE INCOME AND ANNUITIES PAYABLE:

Life income and annuities payable of $47,704 and $48,199 at June 30, 2019 and 2018, respectively, represent actuarially determined liabilities for contractual obligations under gift annuities, unitrusts, and pooled income funds.

June 30, 2019 and 2018
(In thousands)

NOTE 11 - BONDS AND NOTE PAYABLE:

At June 30, 2019 and 2018, bonds and note payable was comprised of the following:

	2019	2018
Bonds issued through California Educational Facilities Authority (CEFA):		
Series 2007	$ 10,105	$ 10,345
Series 2011	4,155	4,440
Series 2012	28,205	28,530
Series 2015	105,335	108,005
	147,800	151,320
Note issued through California Municipal Finance Authority (CMFA):		
2013 Tax-Exempt Loan	22,706	23,278
	170,506	174,598
Unamortized cost of issuance	(1,647)	(1,733)
Unamortized premium/(discount), net	13,710	14,400
Total bonds and note payable	$ 182,569	$ 187,265

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 $255 in 2019 to $1,025 in 2038. Interest is payable semi-annually at a rate of 5.0%, at June 30, 2019.

The CEFA Series 2011 bonds are due in 2030. Annual installments range from $300 in 2020 to $480 in 2030. Interest is payable semi-annually at rates ranging from 4.0% to 5.3%, at June 30, 2019.

The CEFA Series 2012 bonds are due in 2042. Annual installments range from $340 in 2020 to $22,260 in 2042. Interest is payable semi-annually at rates ranging from 2.3% to 4.0%, at June 30, 2019. Bonds maturing after January 1, 2033 are subject to mandatory redemption, in part, by lot, from mandatory sinking fund payments deposited.

The CEFA Series 2015 bonds are due in 2039. Annual installments range from $2,830 in 2020 to $8,210 in 2038. Interest is payable semi-annually at rates ranging from 4.0% to 5.0%, at June 30, 2019.

In December 2013, the College signed a California Municipal Finance Authority (CMFA) Tax-Exempt Loan agreement, not to exceed $25,000 that matures December 2043. 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 $6,914 and $7,074 for the years ended June 30, 2019 and 2018, respectively.

June 30, 2019 and 2018
(In thousands)

NOTE 11 - BONDS AND NOTE PAYABLE: Continued

The maturity of note and bonds payable at June 30, 2019 is as follows:

Fiscal Years Ending June 30,	Principal Amount
2020	$ 4,316
2021	4,559
2022	4,796
2023	5,049
2024	5,316
Thereafter	146,470
	$ 170,506

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 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, 2019 and 2018.

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 $3,292 and $3,363, respectively, at June 30, 2019 and 2018.

June 30, 2019 and 2018
(In thousands)

NOTE 13 - NET ASSETS:

At June 30, 2019 and 2018, net assets consists of the following:

	2019	2018
Without donor restrictions:		
For operations and designated purposes	$ 5,177	$ 7,794
Housing assistance and student loans	5,013	4,686
Board designated endowment funds	196,392	189,843
Plant facilities	121,309	113,423
Total net assets without donor restrictions	$ 327,891	$ 315,746
With donor restrictions:		
Restricted for specific purposes	$ 124,664	$ 102,193
Annuity and life income contracts and agreements	11,022	10,892
Term endowments	57,771	62,975
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:		
Without purpose restriction	19,684	19,386
With purpose restriction	227,231	221,665
Student loans	11,848	11,868
Endowment	410,967	387,144
Total net assets with donor restrictions	$ 863,187	$ 816,123

June 30, 2019 and 2018
(In thousands)

NOTE 14 - ENDOWMENT:

The net assets of the College include perpetual endowments and funds functioning as endowments. Perpetual 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, 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions	2019
Investment returns:			
Investment income	$ 43,223	$ 5,625	$ 48,848
Endowment returns reinvested (or distributed for operations)	(39,215)	4,563	(34,652)
Net investment returns	4,008	10,188	14,196
Other changes in endowed equity:			
Gifts	-	21,767	21,767
Other changes	2,541	(7,472)	(4,931)
Total other changes in endowed equity	2,541	14,295	16,836
Net change in endowed equity	6,549	24,483	31,032
Endowed equity, beginning of year	189,843	691,170	881,013
Endowed equity, end of year	$ 196,392	$ 715,653	$ 912,045

At June 30, 2019, endowed equity consists of the following assets:

Contributions receivable, net of discount	$ -	$ 46,446	$ 46,446
Other assets	-	124	124
Investments	196,392	669,083	865,475
Total endowed equity	$ 196,392	$ 715,653	$ 912,045

June 30, 2019 and 2018
(In thousands)

NOTE 14 - ENDOWMENT: Continued

Changes in the College's endowment for the year ended June 30, 2018 were as follows:

	Without Donor Restrictions	With Donor Restrictions	2018
Investment returns:			
Investment income	$ 46,783	$ 23,908	$ 70,691
Endowment returns reinvested (or distributed for operations)	(37,177)	4,369	(32,808)
Net investment returns	9,606	28,277	37,883
Other changes in endowed equity:			
Gifts	-	9,489	9,489
Other changes	3,201	(2,838)	363
Total other changes in endowed equity	3,201	6,651	9,852
Net change in endowed equity	12,807	34,928	47,735
Endowed equity, beginning of year	177,036	656,242	833,278
Endowed equity, end of year	$ 189,843	$ 691,170	$ 881,013

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

Contributions receivable, net of discount	$ -	$ 45,573	$ 45,573
Other assets	-	134	134
Investments	189,843	645,463	835,306
Total endowed equity	$ 189,843	$ 691,170	$ 881,013

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 $232 and $259 at June 30, 2019 and 2018, respectively. Deficiencies for donor-restricted endowment funds were recorded as a reduction in endowments with donor restrictions.

June 30, 2019 and 2018
(In thousands)

NOTE 15 – LIQUIDITY AND AVAILABILITY:

As of June 30, 2019 and 2018, the College’s financial assets and liquidity resources available within one year for general expenditure are as follows:

	2019	2018
Financial assets:		
Cash	$ 1,138	$ 908
Accounts and notes receivable, net	3,048	3,285
Contributions receivable, net	14,410	14,752
Short term investments	64,184	57,797
Board designations:		
Funds functioning as endowment	195,414	188,114
Subsequent year's endowment spending policy	31,643	30,139
Total financial assets available within one year	309,837	294,995
Liquidity resources:		
Bank line of credit	10,000	10,000
Total financial assets and liquidity resources available within one year	$ 319,837	$ 304,995

The College’s cash flows have seasonal variability due to tuition billing and a concentration of contributions received at calendar and fiscal year-ends. The College has accounted for this through a disciplined budget approach. The College does not normally spend from its board designated funds functioning as endowment, other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process. However, board designated funds functioning as endowment could be made available for general expenditure with board approval.

NOTE 16 - NET STUDENT REVENUES:

Student revenues for the years ended June 30, 2019 and 2018 consist of the following:

	2019	2018
Tuition and fees	$ 73,148	$ 72,101
Room and board	18,956	19,017
Gross student revenues	92,104	91,118
Less financial aid	(25,201)	(23,474)
Net student revenues	$ 66,903	$ 67,644

June 30, 2019 and 2018
(In thousands)

NOTE 17 - NATURAL CLASSIFICATION OF EXPENSES:

Expenses by natural classification for the years ended June 30, 2019 and 2018, consist of the following:

	Academic and Research	Student and Auxiliary Services	Institutional Support	2019
Direct employee costs	$ 40,610	$ 13,790	$ 10,062	$ 64,462
General services, travel and transportation	4,673	6,236	4,832	15,741
Shared services and joint programs	5,780	1,750	3,831	11,361
General supplies and other expenses	1,552	4,761	1,025	7,338
Plant maintenance and equipment	2,916	7,134	1,769	11,819
Interest expense	2,599	4,027	328	6,954
Depreciation expense	2,746	6,485	563	9,794
Total expenses	$ 60,876	$ 44,183	$ 22,410	$ 127,469

	Academic and Research	Student and Auxiliary Services	Institutional Support	2018
Direct employee costs	$ 38,388	$ 11,677	$ 10,529	$ 60,594
General services, travel and transportation	4,430	4,946	3,555	12,931
Shared services and joint programs	5,717	1,742	3,981	11,440
General supplies and other expenses	1,534	4,802	808	7,144
Plant maintenance and equipment	2,953	7,066	1,544	11,563
Interest expense	2,657	4,123	333	7,113
Depreciation expense	2,979	7,136	589	10,704
Total expenses	$ 58,658	$ 41,492	$ 21,339	$ 121,489

NOTE 18 - EMPLOYEE BENEFIT PLANS:

The College participates, with other members of The Claremont Colleges (Note 20), 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, 2019 and 2018 totaled $4,862 and $4,585, respectively.

NOTE 19 - INSTITUTIONAL SUPPORT FUNDRAISING EXPENSE:

Included in Institutional Support expenses are $4,954 and $4,807 of expenditures related to fundraising for the years ended June 30, 2019 and 2018, respectively.

June 30, 2019 and 2018
(In thousands)

NOTE 20 - 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, 2019 and 2018 totaled $7,433 and $6,947, 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.

NOTE 21 - 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, 2019 and 2018 totaled $24,154 and $20,940, respectively.

The College receives contributions and promises to give from members of the Board of Trustees. For the years ended June 30, 2019 and 2018, the College received $21,524 and $25,216, respectively, of total private gifts and grants from members of the Board of Trustees. For the years ended June 30, 2019 and 2018, private gifts and grants from the Board of Trustees were comprised approximately of 68% and 78% from three and one members, respectively. At June 30, 2019 and 2018, contributions receivable from members of the Board of Trustees totaled $101,409 and $112,369, respectively.

NOTE 22 - 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 23 - SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 24, 2019, which corresponds to the date when the financial statements are available for issuance.

For additional copies, please contact
Erin Watkins
Associate Vice President for Finance and Acting Treasurer

Bauer Center, 500 East Ninth Street
Claremont, California 91711-6400
(909) 621-8116
erin.watkins@claremontmckenna.edu