



CLAREMONT  
MCKENNA  
— C O L L E G E —

*2014–2015 Financial Report*

# CLAREMONT MCKENNA COLLEGE ANNUAL FINANCIAL REPORT

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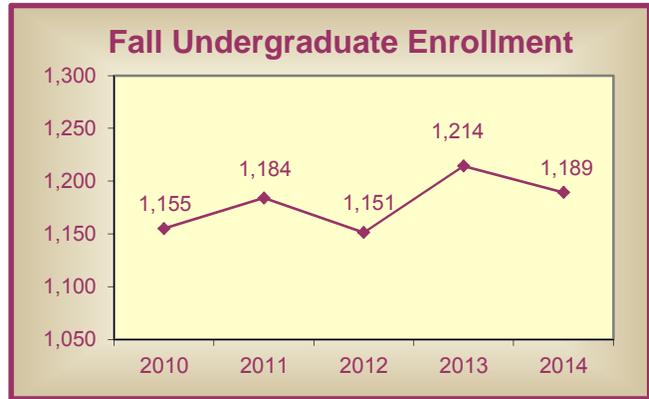
2015 and 2014

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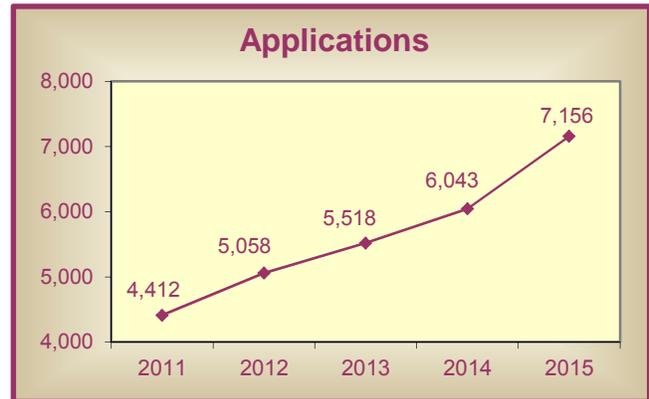
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## Financial Highlights

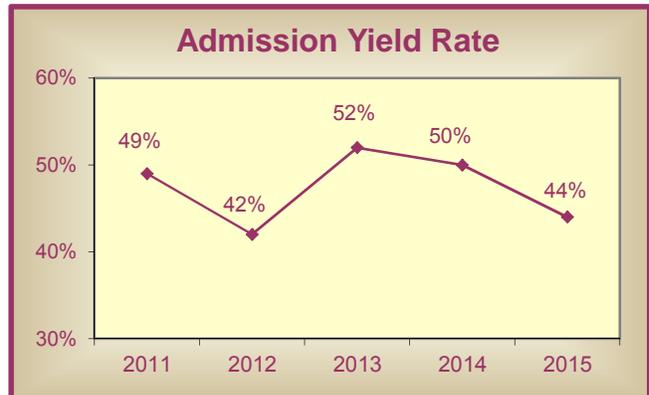
- Fall 2014 FTE undergraduate enrollment in Claremont reflected a planned decrease from the prior year. The average FTE undergraduate enrollment in Claremont for the year (Fall and Spring) was 1,193. FTE undergraduate enrollment, including off-campus and study-abroad programs, was 1,281.



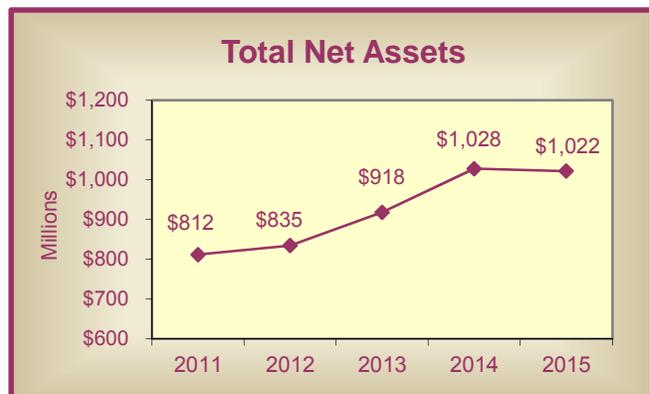
- Freshman applications for admission in the Fall of 2015 were 7,156, an all-time high for CMC. Applications for the last five years have averaged 5,637—approximately sixteen times more applications than openings in the entering class.



- The yield rate decreased to 44% for the Fall of 2015. The total number of new freshmen entering the College in the Fall of 2015 was 343 students.

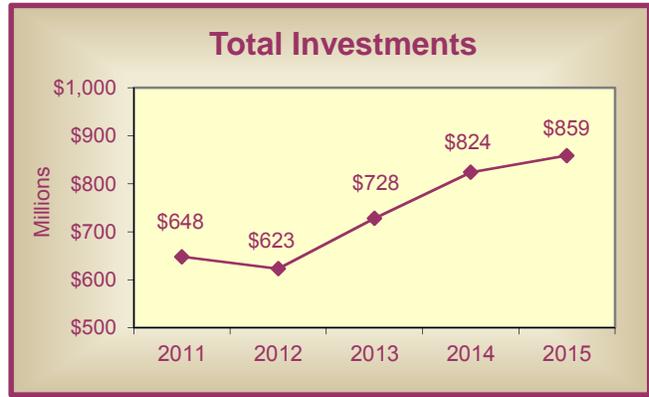


- Total net assets decreased slightly by 0.6%, remaining at just over \$1 billion, primarily driven by realized and unrealized losses on investments, net of spending for operations, and realized losses on contributions receivable.



## Financial Highlights

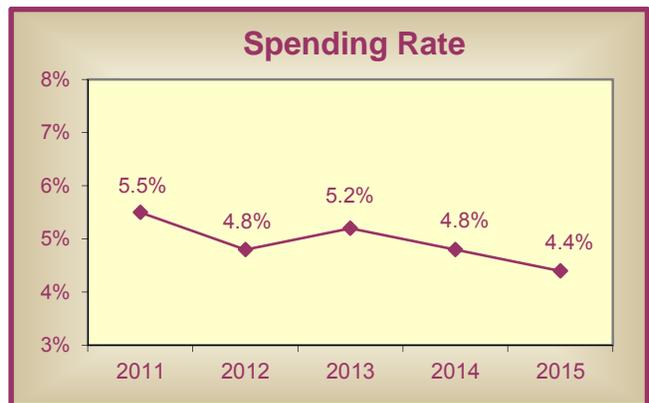
- Total investments increased by 4.2% in 2015, after fees and spending for operations. The net increase was primarily attributable to new gifts.



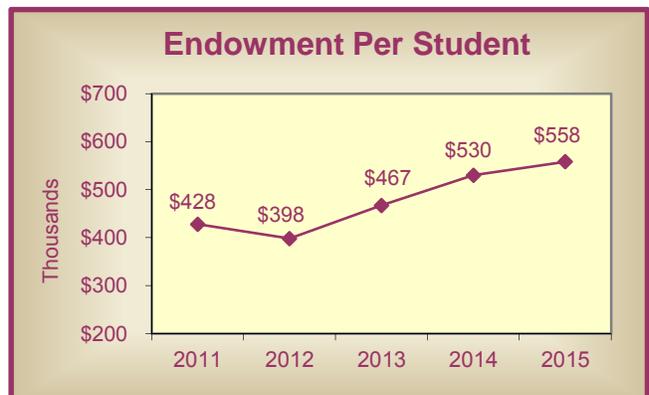
- The unit market value decreased by 2.9%. Unit market value reflects general market performance after spending for operations.



- 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 2014, which became the beginning of the year value for 2015.

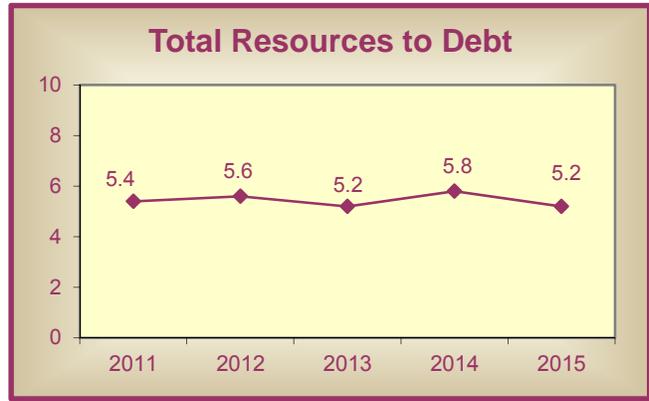


- Endowment per student increased as a result of an increase in the market value of the endowment as of June 30, 2015 and a decrease in Fall 2014 FTE enrollment. Total endowment at June 30, 2015, was \$734 million.

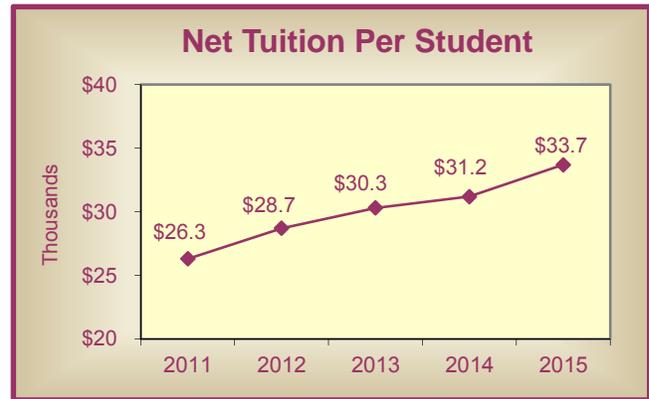


## Financial Highlights

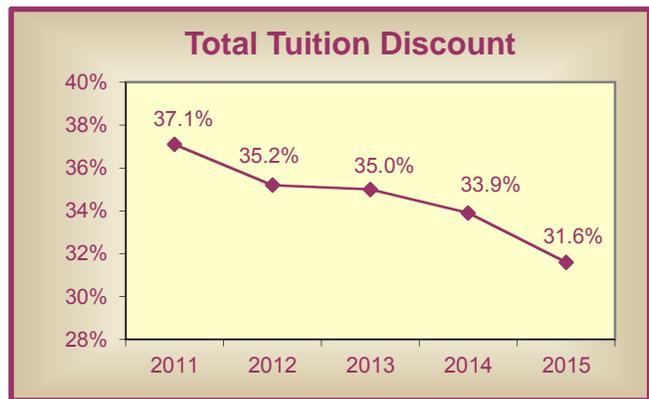
- Total resources to debt decreased in 2015 as a result of draws on a new tax-exempt loan. CMC's ratio of 5.2 is lower than the 2014 median value of 6.5 for Moody's Aa small institutions (enrollments typically under 3,000 FTE). Moody's Investors Services assigned a rating of Aa2 with a stable outlook to CMC's Series 2012 Revenue Bonds.



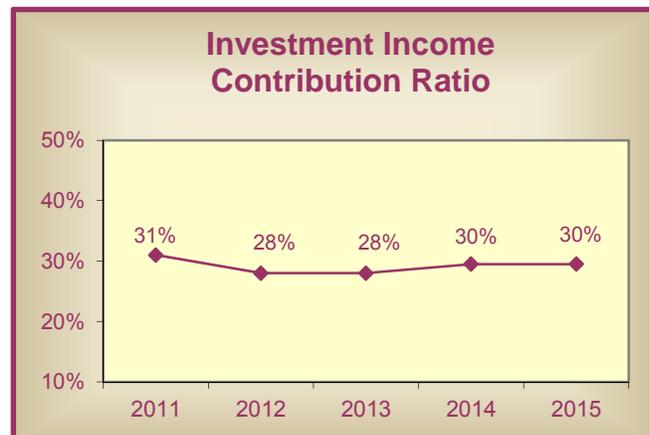
- CMC experienced growth of 8% in net tuition per student due to a decrease in the total tuition discount. This dollar level places CMC higher than the 2014 median net tuition per student of \$28,182 for Moody's Aa small institutions.



- The total tuition discount (financial aid divided by tuition and fees revenues) decreased due to changes in the calculated financial need of the undergraduate students in 2015. CMC's discount is lower than the 2014 median discount of 39.3% for Moody's Aa small institutions.



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



## Financial Highlights

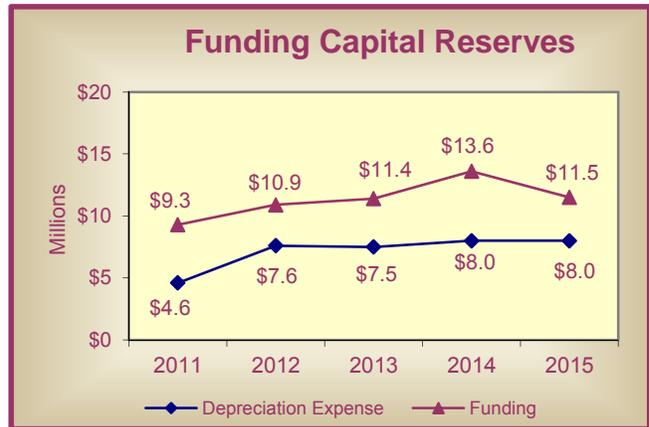
- Private gifts and grants reported by the Development Office were \$51.6 million for the 2015 fiscal year. After actuarially adjusting the deferred gifts and adjusting for unconditional promises to give, total contribution revenues finished the fiscal year at \$39.1 million.



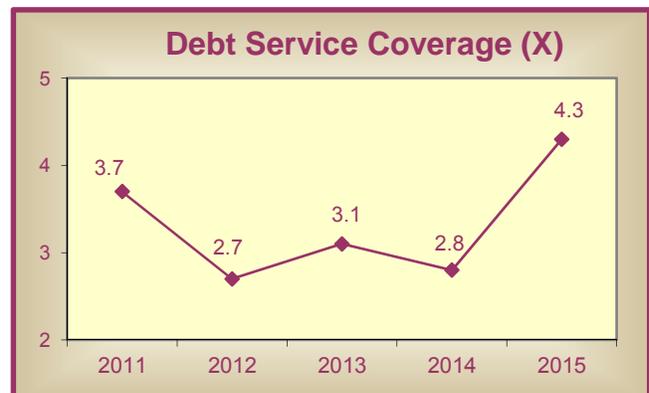
- Although unpredictable from year to year, matured annuity and life income agreements continue to provide significant resources to the College's endowment and operating funds.



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



- Debt service coverage (net operating revenues plus interest and depreciation expense divided by annual debt service) increased in 2015 due to an increase in net operating revenue. CMC's ratio is higher than the 2014 median value of 2.46 for Moody's Aa small institutions.





October 26, 2015

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

Ladies and Gentlemen:

The fiscal year that ended on June 30, 2015 continued to move the College toward its long-term goals of enhancing the CMC student experience through its academic and co-curricular programs, and supported by resources aimed at student affordability and access to up-to-date facilities. With several large capital projects nearing completion, the Board of Trustees focused its fundraising efforts toward *The Student Imperative*, CMC's initiative aimed at responding to the nationwide crisis in higher education by focusing on affordability, academic value, and personal and social responsibility. The Board set its initial fundraising goal for *The Student Imperative* at \$100 million to support financial aid and scholarships. Approximately \$90 million toward this goal had been raised by the Advancement Office as of June 30, 2015, though many of the funds raised are in the form of deferred gifts and not yet recognized in the financial statements.

The investment portfolio remains the largest asset of the College, and is closely monitored by the Board's Investment Committee. The return on CMC's endowment for the year was 1.7%, net of fees. CMC's trailing three- five- and ten-year returns are tracking in the top 15% of the Cambridge Associates database of preliminary returns for college and university investment pools. The investment returns, net of spending for operations and accompanied by generous new gifts to the endowment, account for an increase in total investments of 32.6% since 2011.

The spending rate dropped to 4.4%, its most conservative point since the beginning of the economic downturn in 2008. A new spending policy adopted by the Board of Trustees in 2012 in response to the changing economic conditions and expectations of future earnings was fully implemented on July 1, 2015. Investment income, in the form of spending allocations from the endowment, provides a significant contribution toward covering the operational costs of a CMC education.

The Admission Office recruited another impressive group of freshmen for Fall 2015. The number of applicants for the class of 2019, recruited during the 2014-15 fiscal year, continued to climb, setting another record at 7,156 applications received. This was 18.4% higher than the prior record for the College set in 2013-14, and 29.7% higher than applications in the two-year period 2013-15. Of the 7,156 applications received, 11% were accepted (admission rate), and 44% were enrolled (yield rate), continuing to mark CMC as one of the most selective liberal arts colleges in the country. The combined median SAT score was 2170; the median ACT composite score was 32. Only 37% of our 343 enrolled freshmen are from California; another 45% represent domestic students outside of California and 18% are international students (based on permanent address; 17% are on non-U.S. visas), representing 19 countries. The average FTE

undergraduate enrollment in Claremont for the 2014-15 fiscal year decreased intentionally to 1,193 from 1,214 students in the prior year. The enrollment yields in the 2013 entering freshman class were higher than anticipated and created a housing shortage on campus that has since been resolved with the recent additions to the Mid-Quad residence halls.

Net tuition per student continued to increase while the total tuition discount dropped. These trends are in line with a multi-year plan to balance the tuition discount at a sustainable level while also keeping tuition increases as low as possible. The College continues to maintain its need-blind admission policy and meet-all-need financial aid policy, and recently confirmed the preservation of these policies as a high priority. After five years of providing need-based financial aid packages with no student loans, the College made the difficult decision, driven by the economic environment, to reinstitute packaged loans beginning with the incoming class of 2014. The movement to reintroduce loans into the financial aid packages was one of the drivers affecting the total tuition discount and the net tuition per student. New gifts and pledges received for *The Student Imperative* will provide future resources for both need-based and merit aid programs.

### **Statements of Financial Position**

Total assets at the end of June 30, 2015, increased 1.5% over the prior year, primarily attributable to increases in investments and plant facilities. The increases in assets were offset by a decrease in contributions receivable as payments toward multi-year pledges were received, including a settlement of a large pledge due in 2027. Total liabilities increased 10.5% primarily as a result of drawdowns on a new loan issued through the California Municipal Finance Authority to finance renovations and construction of the Mid-Quad residence hall additions as well as site improvements in the adjacent area around the South Quad residence halls.

The increase in plant facilities, net of depreciation, from 2014 to 2015 included work in progress on additions to and major renovations of five residence halls in the Mid-Quad residential precinct. The project was spread over three years and was completed in August 2015. Approximately 105 new beds were added to this area of campus; the project included new lounges, new patios, a courtyard, a community kitchen, and new music practice space in the Marks Hall basement. Construction also continued on Roberts Pavilion, a new state-of-the-art fitness and event center for CMC and athletic center for the Claremont-Mudd-Scripps intercollegiate, intramural, and physical education programs. Construction will be substantially complete in the spring of 2016 followed soon after with an eagerly anticipated public opening of the facility.

Earlier this month, an exciting announcement was made related to the gift from George Roberts to CMC of two major sculptures by world-renowned artists Chris Burden and Ellsworth Kelly. The sculptures are a milestone in a major public art initiative underway at CMC. Burden's work will be installed in 2016 in front of the new Roberts Pavilion, and the Kelly piece will be placed at the site of the original Story House on the campus in 2017.

## **Statement of Activities**

The statement of activities provides greater detail of the changes in net assets during the fiscal year. Although total revenues increased 16.6% over the prior year, net assets decreased 0.6%, driven by a combination of realized and unrealized losses on investments and recorded losses on contributions receivable. A large portion of the \$39 million in new private gifts and grants were endowed to support *The Student Imperative*, which was also reflected in the 6.3% increase in spending policy income. A slight decrease in enrollment was planned until the new Mid-Quad beds could be completed in the fall of 2016. With normal increases in student charges and less demand in need-based financial aid than in the prior year, net student revenues increased by 5.6%.

Total operating expenses increased by 3.1% from the prior year, with increases primarily noted in instruction, academic support, and institutional support. As new initiatives for educating and cultivating personal and social responsibility among the student body were embraced, staffing was increased to manage compliance with stricter federal regulations placed on higher education by the Department of Education's Office of Civil Rights.

In order to protect the recent investment in facilities, the College follows a strategy to transfer funds to its capital reserves based on data reflecting known repair needs and projecting likely modernization of space when buildings are renovated. The capital plan is updated annually and reviewed by the Buildings & Grounds and Finance Committees of the Board of Trustees.

## **Statements of Cash Flows**

Net cash flows increased by \$688,000 in fiscal year 2015. The net cash used in investing activities of \$29 million was offset by net cash provided by financing activities of \$26 million and by operating activities of almost \$4 million. Financing activities included drawdowns of cash reserves and of loan proceeds to fund a substantial portion of the construction activities. Cash outside of the investment pool continues to be managed using a multi-tiered structure based on the timeline of the expected use of cash, particularly related to the needs for capital projects, and is reviewed regularly by the Finance and Investment Committees of the Board of Trustees.

## **Summary**

The fiscal year ended in a strong place financially considering the slow growth in the general economy. Fundraising efforts were strong, particularly related to *The Student Imperative*, and the endowment continued to grow despite a somewhat flat year in the financial markets. Student recruiting efforts aimed at achieving a strong freshman class continue to be successful as demonstrated by excellent admission statistics. Improvements to the physical campus have been transformational, especially noted in comments made by prospective student visitors and alumni returning to the campus. The addition of two new sculptures on the campus will only enhance the attraction of the unique qualities CMC has to offer to prospective students, faculty and staff.

Members of the Board of Trustees  
October 26, 2015

The President and Board of Trustees are enthusiastically and actively engaged in a strategy of providing an excellent educational experience for all students at CMC. The 2016 fiscal year is off to a good start in all aspects supporting this goal.

Respectfully submitted,



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

## 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, 2015 and 2014, 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, 2015 and 2014, 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 26, 2015

# CLAREMONT MCKENNA COLLEGE

## STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014  
(in thousands)

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash	\$ 1,420	\$ 732
Accounts and notes receivable, net (Note 2)	17,054	16,199
Prepaid expenses and deposits	7,730	6,373
Contributions receivable, net (Note 3)	146,178	196,577
Beneficial interest in trusts (Note 3)	899	6,219
Investments (Note 4)	858,854	823,856
Plant facilities, net (Note 6)	249,455	212,719
<b>Total assets</b>	<u><u>\$ 1,281,590</u></u>	<u><u>\$ 1,262,675</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 20,432	\$ 17,818
Funds held in trust for others	3,830	3,128
Deposits and deferred revenues	2,155	1,752
Staff retirement liability	1,235	746
Life income and annuities payable (Note 9)	48,241	44,046
Capital lease obligation (Note 7)	824	983
Bonds and notes payable (Note 10)	178,566	162,158
Government advances for student loans	3,237	3,241
Asset retirement obligation (Note 8)	758	729
<b>Total liabilities</b>	<u>259,278</u>	<u>234,601</u>
<b>Net Assets (Note 13):</b>		
Unrestricted	262,518	244,907
Temporarily restricted	429,089	475,273
Permanently restricted	330,705	307,894
<b>Total net assets</b>	<u>1,022,312</u>	<u>1,028,074</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 1,281,590</u></u>	<u><u>\$ 1,262,675</u></u>

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

# CLAREMONT MCKENNA COLLEGE

## STATEMENT OF ACTIVITIES

For the year ended June 30, 2015  
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>				
Student revenues	\$ 79,415	\$ -	\$ -	\$ 79,415
Less: Financial aid	(19,920)	-	-	(19,920)
Net student revenues (Note 15)	59,495	-	-	59,495
Private gifts and grants	4,591	12,451	22,074	39,116
Federal grants	1,529	-	-	1,529
Private contracts	713	-	-	713
Spending policy income	8,474	22,231	238	30,943
Other investment income	1,913	3	102	2,018
Other revenues	2,040	-	-	2,040
Release of net assets				
Restricted gifts	28,672	(28,672)	-	-
Restricted spending policy income	20,217	(20,217)	-	-
Annuity and life income	816	(816)	-	-
<b>Total revenues</b>	<b>128,460</b>	<b>(15,020)</b>	<b>22,414</b>	<b>135,854</b>
<b>Expenses:</b>				
Instruction	36,733	-	-	36,733
Research	7,890	-	-	7,890
Academic support	8,987	-	-	8,987
Student services	15,361	-	-	15,361
Institutional support	17,712	-	-	17,712
Auxiliary enterprises	17,188	-	-	17,188
<b>Total expenses</b>	<b>103,871</b>	<b>-</b>	<b>-</b>	<b>103,871</b>
<b>Excess (Deficit) of revenues over expenses</b>	<b>24,589</b>	<b>(15,020)</b>	<b>22,414</b>	<b>31,983</b>
<b>Other changes in net assets:</b>				
Realized and unrealized gains (losses), net of spending allocation	(5,512)	(15,445)	(691)	(21,648)
Realized gain (losses) on contributions receivable (Note 3)	-	(12,981)	228	(12,753)
Release of net assets				
Plant facilities	291	(291)	-	-
Transfers to Claremont University Consortium	(943)	-	-	(943)
Actuarial adjustment	116	174	(1,970)	(1,680)
Staff retirement plan comprehensive loss	(721)	-	-	(721)
Donor redesignations between net asset categories	(209)	(2,621)	2,830	-
<b>Change in net assets</b>	<b>17,611</b>	<b>(46,184)</b>	<b>22,811</b>	<b>(5,762)</b>
Net assets at beginning of year	244,907	475,273	307,894	1,028,074
Net assets at end of year	<u>\$ 262,518</u>	<u>\$ 429,089</u>	<u>\$ 330,705</u>	<u>\$ 1,022,312</u>

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

# CLAREMONT MCKENNA COLLEGE

## STATEMENT OF ACTIVITIES

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>				
Student revenues	\$ 77,139	\$ -	\$ -	\$ 77,139
Less: Financial aid	(20,799)	-	-	(20,799)
Net student revenues	56,340	-	-	56,340
Private gifts and grants	4,169	14,414	6,873	25,456
Federal grants	789	-	-	789
Private contracts	812	-	-	812
Spending policy income	8,098	20,851	162	29,111
Other investment income	2,038	21	63	2,122
Other revenues	1,882	-	-	1,882
Release of net assets				
Restricted gifts	16,620	(16,620)	-	-
Restricted spending policy income	19,528	(19,528)	-	-
Annuity and life income	115	(115)	-	-
<b>Total revenues</b>	<u>110,391</u>	<u>(977)</u>	<u>7,098</u>	<u>116,512</u>
<b>Expenses:</b>				
Instruction	34,933	-	-	34,933
Research	8,298	-	-	8,298
Academic support	8,469	-	-	8,469
Student services	15,197	-	-	15,197
Institutional support	16,678	-	-	16,678
Auxiliary enterprises	17,140	-	-	17,140
<b>Total expenses</b>	<u>100,715</u>	<u>-</u>	<u>-</u>	<u>100,715</u>
<b>Excess (Deficit) of revenues over expenses</b>	9,676	(977)	7,098	15,797
<b>Other changes in net assets:</b>				
Realized and unrealized gains (losses), net of spending allocation	23,433	64,370	1,541	89,344
Realized losses on contributions receivable (Note 3)	-	(234)	(313)	(547)
Actuarial adjustment	-	1,949	2,793	4,742
Staff retirement plan comprehensive gain	294	-	-	294
Donor redesignations between net asset categories	(36)	(2,848)	2,884	-
<b>Change in net assets</b>	33,367	62,260	14,003	109,630
Net assets at beginning of year	<u>211,540</u>	<u>413,013</u>	<u>293,891</u>	<u>918,444</u>
Net assets at end of year	<u>\$ 244,907</u>	<u>\$ 475,273</u>	<u>\$ 307,894</u>	<u>\$ 1,028,074</u>

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

# CLAREMONT MCKENNA COLLEGE

## STATEMENTS OF CASH FLOWS

For the years ended June 30, 2015 and 2014  
(in thousands)

	2015	2014
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (5,762)	\$ 109,630
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation expense	8,031	7,988
Amortization and accretion expense	(119)	(112)
Loss on disposal of plant facilities	325	559
Allowance for doubtful student loan accounts	(15)	29
Comprehensive (gain)/loss on staff retirement plan	721	(294)
Discount on life income contract gifts	(5,238)	(2,886)
Realized and unrealized (gain)/loss on investments	(7,435)	(123,395)
Non-cash gifts	(11,100)	(7,495)
Adjustment of actuarial liability for annuities payable	10,950	6,066
Decrease/(increase) in accounts and contributions receivable	18,444	10,300
Decrease/(increase) in beneficial interest in trusts	5,320	(359)
Decrease/(increase) in prepaid expenses and deposits	(1,357)	(872)
(Decrease)/increase in accounts payable and accrued liabilities	2,614	1,694
(Decrease)/increase in funds held in trust for others	702	275
(Decrease)/increase in deposits and deferred revenues	403	463
Contributions restricted for long-term investments	(12,391)	(14,988)
Defined benefit plan contributions over expense	(232)	(157)
<b>Net cash (used in)/provided by operating activities</b>	<b>3,861</b>	<b>(13,554)</b>
<b>Cash flows from investing activities:</b>		
Purchase of plant facilities	(44,754)	(34,625)
Purchases of investments	(814,192)	(702,931)
Proceeds from sales of investments	829,190	738,410
Loans made to students and employees	(1,664)	(2,012)
Collection of student and employee loans	2,262	2,079
<b>Net cash (used in)/provided by investing activities</b>	<b>(29,158)</b>	<b>921</b>
<b>Cash flows from financing activities:</b>		
Payments to annuity and life income beneficiaries	(4,382)	(4,829)
Investment income for annuity and life income investments	1,921	1,956
Proceeds from bonds and notes payable	17,945	1,125
Principal payments for bonds and notes payable	(1,887)	(1,551)
Contributions restricted for life income contracts	3,493	2,994
Contributions restricted for endowment	8,496	11,528
Contributions restricted for plant expenditures and student loans	402	466
Increase/(decrease) in government advances for student loans	(3)	17
<b>Net cash (used in)/provided by financing activities</b>	<b>25,985</b>	<b>11,706</b>
<b>Net (decrease)/increase in cash</b>	<b>688</b>	<b>(927)</b>
Cash at beginning of year	732	1,659
Cash at end of year	<u>\$ 1,420</u>	<u>\$ 732</u>
Supplemental disclosure of cash flows:		
Interest paid	<u>\$ 8,000</u>	<u>\$ 7,869</u>
Supplemental disclosure of noncash financing activity:		
Capital lease obligation	<u>\$ 339</u>	<u>\$ 292</u>

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

# CLAREMONT MCKENNA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

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June 30, 2015 and 2014

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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

The College is a nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. The objective of the College is to maintain and conduct a nonprofit educational institution. The primary purpose of the accounting and reporting is the recording of resources received and applied rather than the determination of net income.

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

#### **Basis of Presentation:**

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S.).

#### **Net Asset Categories:**

The accompanying financial statements present information regarding the College’s financial position and activities according to three categories of net assets: unrestricted, temporarily restricted, and permanently restricted. The three categories are differentiated by donor restrictions. Unrestricted net assets are not subject to donor-imposed restrictions. Temporarily restricted net assets are subject to donor-imposed restrictions that either lapse or can be satisfied. Permanently restricted net assets are resources that a donor has required the College to retain in perpetuity. Generally, the donor of these assets permits the College to use all or a part of the income and gains earned on the gifted assets.

#### **Revenue Recognition:**

Student tuition and fees are recorded as revenues in the year during which the related academic services are rendered. 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 is reviewed both individually and in the aggregate. Allowances have been established based on experience, and balances deemed uncollectible are written off through a charge to bad debt expense or the provision for doubtful accounts and a decrease to accounts, notes, or contributions receivable. The College follows federal guidelines for determining when student loans are delinquent or past due for both federal and institutional loans.

# CLAREMONT MCKENNA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

---

June 30, 2015 and 2014

### 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, 2015 and 2014. 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.

# CLAREMONT MCKENNA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

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June 30, 2015 and 2014

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

#### **Investments: *Continued***

The cost of securities sold is determined by the average cost method and is used to compute realized gains and losses. Unrealized gains and losses reflect the changes in the market values of investments from the prior year. Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or by law. The date of record for investments is the trade date.

#### **Derivatives:**

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

#### **Management of Pooled Investments:**

The College follows an investment policy which anticipates a greater long term return through investing for capital appreciation, and accepts lower current yields from dividends and interest. In order to offset the effect of lower current yields for current operations, the Board of Trustees has adopted a spending policy for pooled investments. If the ordinary income portion of pooled investments return is insufficient to provide the full amount of investment return specified, the balance may be appropriated from realized gains of the pooled investments. Cumulative net realized gains and transfers of ordinary income in excess of the spending policy (“cumulative gains”) are held in their respective net asset categories and are available for appropriation under the College’s spending policy. At June 30, 2015 and 2014, these cumulative gains totaled approximately \$107,215,000 and \$100,191,000, respectively. The Board of Trustees may, at its discretion, approve additional spending for special projects. The Board of Trustees adopted a new investment policy in October 2012 to be implemented over a period of three to four years. The amount of investment return available for current operations will be determined by applying an increase of 2.0% to the prior year unit spending rate, provided that the resulting calculation falls within a collar of 4.5% to 5.5% of a twenty quarter average unit market value.

#### **Endowment Funds:**

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

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

# CLAREMONT MCKENNA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

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June 30, 2015 and 2014

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

#### **Plant Facilities:**

Plant facilities consist of property, plant, and equipment which are stated at cost, representing the original purchase price or the fair market value at the date of the gift, less accumulated depreciation computed on a straight-line basis over the estimated useful lives of buildings, permanent improvements, and equipment. Plant purchases with a useful life of five years or more and a cost equal to or greater than \$100,000 for land improvements and buildings and \$25,000 for equipment are capitalized. Estimated useful lives are generally 7 years for equipment, 50 years for buildings and 25 years for permanent improvements. Building improvements that extend the remaining useful life of the building are depreciated over a period not to exceed 20 years. Assets are retired at their cost less accumulated depreciation at the time they are sold, impaired, or no longer in use. Each year the College transfers to its capital project reserves an amount to allow for the preservation of its existing facilities into the future. Asset retirement obligations are recorded based on estimated settlement dates and methods.

No significant property or equipment has been pledged as collateral or otherwise subject to lien for the years ended June 30, 2015 and 2014. 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, 2015 and 2014. The College is no longer subject to income tax examinations by taxing authorities for the years before June 30, 2012 for its federal filings and for years before June 30, 2011 for its state filings.

#### **Use Of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# CLAREMONT MCKENNA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

---

June 30, 2015 and 2014

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

#### **Fair Value of Financial Instruments:**

A financial instrument is defined as a contractual obligation that ultimately ends with the delivery of cash or an ownership interest in an entity. Disclosures included in these notes regarding the fair value of financial instruments have been derived using external market sources, estimates using present value or other valuation techniques. Determination of the fair value of notes receivables, which are primarily federally sponsored student loans with the U.S. government, mandated interest rates and repayment terms is subject to significant restrictions as to their transfer or disposition and is not practical because such a determination cannot be made without incurring excessive costs.

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

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

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

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the College has the ability to access at the measurement date;

Level 2 – Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 – Inputs that are unobservable.

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

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

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

# CLAREMONT MCKENNA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015 and 2014  
(in thousands)

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

#### **Fair Value of Financial Instruments: *Continued***

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

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

#### **Reclassifications:**

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

### NOTE 2 - ACCOUNTS AND NOTES RECEIVABLE:

Accounts and notes receivable at June 30, 2015 and 2014 are as follows:

	2015	2014
Student notes receivable	\$ 10,368	\$ 10,990
Federal loan funds	1,548	1,895
Other Claremont Colleges	495	250
Student accounts receivable	440	793
Grants and contracts receivable	458	189
Housing assistance notes receivable	2,654	2,283
Other	1,693	507
	<u>17,656</u>	<u>16,907</u>
Less allowance for doubtful accounts receivable	(602)	(708)
Net accounts and notes receivable	<u>\$ 17,054</u>	<u>\$ 16,199</u>

### NOTE 3 - CONTRIBUTIONS RECEIVABLE AND BENEFICIAL INTEREST IN TRUSTS:

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

Contributions receivable at June 30, 2015 and 2014 are expected to be realized as follows:

	2015	2014
Within one year	\$ 28,911	\$ 23,394
Between one year and five years	74,106	66,288
More than five years	66,599	178,119
	<u>169,616</u>	<u>267,801</u>
Less discount	(22,450)	(70,036)
Less allowance for doubtful contributions receivable	(988)	(1,188)
Net contributions receivable	<u>\$ 146,178</u>	<u>\$ 196,577</u>

**CLAREMONT MCKENNA COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**

---

June 30, 2015 and 2014  
(in thousands)

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

Contributions receivable at June 30, 2015 and 2014 are intended for the following uses:

	2015	2014
Endowment	\$ 69,188	\$ 107,390
Plant	4,818	5,079
Other	72,172	84,108
Net contributions receivable	<u>\$ 146,178</u>	<u>\$ 196,577</u>

The College evaluates collectability of contributions receivable on an annual basis, and writes off those deemed uncollectible. During the year ended June 30, 2015, the College accepted early payment of a large contribution receivable at a higher discount rate than originally recorded. This transaction accounted for \$12,016 of the total realized losses on contributions receivable.

At June 30, 2015 and 2014, the College had knowledge of conditional promises to give in the amount of \$3,095 and \$3,880, respectively. The promises will be recognized as revenue when the conditions are met.

Conditional promises to give at June 30, 2015 and 2014 are intended for the following uses:

	2015	2014
Endowed chairs for new and existing faculty positions	\$ 1,695	\$ 2,430
General purposes of the College	1,400	1,450
Net conditional promises to give	<u>\$ 3,095</u>	<u>\$ 3,880</u>

At June 30, 2015 and 2014, the College held beneficial interest in outside trusts of \$899 and \$6,219, respectively. These trusts are administered by outside trustees, with the College deriving income and/or a residual interest from the assets. When an irrevocable trust is established or the College is notified of its existence, the College recognizes its beneficial interest in the trust as a contribution at fair value, which is measured as the present value of the estimated expected future benefits to be received when the trust assets are distributed. The contribution revenue recognized is classified as an increase in either temporarily or permanently restricted net assets based on the time or use restrictions placed by the donor upon the College's beneficial interest in the assets. Periodic adjustments to the beneficial interest to reflect changes in the fair value, life expectancy, and discount rate are recognized as actuarial gains or losses. The discount rates used are commensurate with the risks associated with the contribution.

At June 30, 2015, 82.9% of contributions receivable were due from three donors. At June 30, 2014, 92.2% of contributions receivable were due from three donors.

**CLAREMONT MCKENNA COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2015 and 2014  
(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, 2015 and 2014:

	Pooled Investments Fund	
	2015	2014
<b>Unit market value at end of year</b>	<u>\$ 669.13</u>	<u>\$ 689.12</u>
<b>Units owned:</b>		
Unrestricted:		
Funds functioning as endowment	241,556	228,444
Temporarily restricted:		
Annuity and life income contracts and agreements	17,546	20,642
Endowment	65,360	71,169
Total temporarily restricted	<u>82,906</u>	<u>91,811</u>
Permanently restricted:		
Endowment	740,458	713,513
College loan investments	2,608	2,413
Annuity and life income contracts and agreements	43,543	38,843
Total permanently restricted	<u>786,609</u>	<u>754,769</u>
Total units	<u>1,111,071</u>	<u>1,075,024</u>

Investment income related to the College's pooled investments for the years ended June 30, 2015 and 2014, net of management and custody fees of \$3,986 and \$4,095, respectively, is as follows:

	2015	2014
Amounts allocated in accordance with spending policy for pooled investments:		
Net pooled investment income	\$ 1,008	\$ 3,028
Pooled investment gains appropriated	31,751	27,923
Total spending policy income and gains	<u>32,759</u>	<u>30,951</u>
Other investment income	2,018	2,122
Less amounts allocated to annuity and life income contracts and agreements	(1,816)	(1,840)
Total investment income	<u>\$ 32,961</u>	<u>\$ 31,233</u>
Realized and unrealized gains/(losses), net of spending allocation	(34,401)	88,797
Total investment returns	<u>\$ (1,440)</u>	<u>\$ 120,030</u>

CLAREMONT MCKENNA COLLEGE  
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015 and 2014  
 (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, except for real estate and other investments. The following schedule summarizes the assets in pooled investments and the assets held as separate investments at June 30, 2015 and 2014:

	2015	2014
Cash equivalents	\$ 27,689	\$ 26,540
Domestic equities	209,350	215,704
International equities	170,670	170,626
Domestic treasuries	53,997	49,767
Global fixed income	28,106	43,014
High yield and bank loans	39,924	20,957
Assets whose use is limited (Note 11)	3,818	5,212
Private investments:		
Long/short equity	53,492	49,391
Absolute return funds	83,180	90,425
Private equity and venture capital	114,246	99,094
Real estate, energy, and timber	74,382	53,126
Total investments	<u>\$ 858,854</u>	<u>\$ 823,856</u>
<u>By category:</u>	<u>2015</u>	<u>2014</u>
Endowment and funds functioning as endowment:		
Pooled investments	\$ 700,827	\$ 698,165
Separately invested	33,044	1,328
Total endowment and funds functioning as endowment	<u>733,871</u>	<u>699,493</u>
Annuity and life income contracts:		
Pooled investments	\$ 40,876	\$ 40,992
Separately invested	20,701	16,794
Total annuity and life income contracts and agreements	<u>61,577</u>	<u>57,786</u>
Other:		
Pooled	\$ 1,745	\$ 1,663
Separately invested	61,661	64,914
Total other	<u>63,406</u>	<u>66,577</u>
Total by category	<u>\$ 858,854</u>	<u>\$ 823,856</u>

**CLAREMONT MCKENNA COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2015 and 2014  
(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, 2015 and 2014:

	Level 1	Level 2	Level 3	2015
Cash equivalents	\$ 27,641	\$ 48	\$ -	\$ 27,689
Domestic equities	129,137	80,213	-	209,350
International equities	33,833	136,837	-	170,670
Domestic treasuries	-	53,997	-	53,997
Global fixed income	11,554	16,552	-	28,106
High yield and bank loans	-	39,924	-	39,924
Assets whose use is limited	-	3,818	-	3,818
Private investments:				
Long/short equity	-	-	53,492	53,492
Absolute return	-	-	83,180	83,180
Private equity and venture capital	-	-	114,246	114,246
Real estate, energy, and timber	-	-	74,382	74,382
Beneficial interest in trusts	-	-	899	899
Total	<u>\$ 202,165</u>	<u>\$ 331,389</u>	<u>\$ 326,199</u>	<u>\$ 859,753</u>

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

**CLAREMONT MCKENNA COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2015 and 2014  
(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, 2015 and 2014:

	Private investments					Beneficial interest in trusts	Total
	Long/short equity	Absolute return	Private equity & venture capital	Real estate, energy, and timber			
Balance at July 1, 2013	\$ 44,764	\$ 82,708	\$ 71,019	\$ 48,053	\$ 5,860	\$ 252,404	
Purchases	-	91	21,321	9,130	-	30,542	
Sales	(1,198)	(3,291)	(17,943)	(15,096)	-	(37,528)	
Realized gain/(loss), net	14	86	6,529	3,474	-	10,103	
Unrealized gain/(loss), net	5,811	10,830	17,450	5,374	-	39,465	
Interest/dividends	-	1	718	2,191	-	2,910	
Actuarial adjustment	-	-	-	-	359	359	
Balance at July 1, 2014	\$ 49,391	\$ 90,425	\$ 99,094	\$ 53,126	\$ 6,219	\$ 298,255	
Purchases	-	-	17,159	42,196	-	59,355	
Sales	(365)	(372)	(24,983)	(16,027)	-	(41,747)	
Realized gain/(loss), net	(11)	(35)	9,656	4,265	-	13,875	
Unrealized gain/(loss), net	4,477	(6,838)	12,487	(9,942)	-	184	
Interest/dividends	-	-	833	764	-	1,597	
Actuarial adjustment	-	-	-	-	(5,320)	(5,320)	
Balance at June 30, 2015	<u>\$ 53,492</u>	<u>\$ 83,180</u>	<u>\$ 114,246</u>	<u>\$ 74,382</u>	<u>\$ 899</u>	<u>\$ 326,199</u>	

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. Also included in those accounts are net unrealized gains/(losses) on investments and actuarial adjustment on beneficial interest in trusts for Level 3 assets still held at June 30, 2015 and 2014 of \$184 and \$39,465, respectively. The College's policy is to recognize transfers in and transfers out of Level 1, Level 2, and Level 3 at the beginning of the reporting period.

The following table shows the fair value, unfunded commitments and redemption restrictions for investments reported at Net Asset Value at June 30, 2015:

	Fair Value at June 30, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Domestic equities	\$ 80,213	none	30 to 90 days	30 to 60 days	(1)
International equity funds	136,837	none	30 to 90 days	6 to 60 days	(1)
Domestic treasuries	53,997	none	Daily	Daily	(1)
Global fixed income	16,552	none	1 to 30 days	10 to 15 days	(1)
High yield and bank loans	39,924	none	30 days	30 days	(1)
Long/short equity	53,492	none	1 to 3 years	60 to 90 days	(2)
Absolute return	83,180	none	qtrly to 1 years	45 to 90 days	(2)
Private equity and venture capital	114,246	\$ 56,562	N/A	N/A	(3)
Real estate, energy, and timber	74,382	43,706	N/A	N/A	(3)
Total	<u>\$ 652,823</u>	<u>\$ 100,268</u>			

# CLAREMONT MCKENNA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015 and 2014  
(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, 2015 and 2014 consists of the following:

	2015	2014
Land and land improvements	\$ 20,472	\$ 20,068
Buildings and permanent improvements	184,735	184,471
Equipment	26,225	25,159
Equipment under capital lease	2,301	1,962
Property held for future use	14,531	14,296
Construction in progress	89,149	46,741
	<u>337,413</u>	<u>292,697</u>
Less accumulated depreciation	(87,958)	(79,978)
Net plant facilities	<u>\$ 249,455</u>	<u>\$ 212,719</u>

At June 30, 2015 and 2014, the amount of capitalized interest included in construction in progress was \$2,183 and \$829, respectively.

### NOTE 7 - CAPITAL LEASE OBLIGATION:

The College entered into capital lease commitments to finance the acquisition of certain equipment. The corresponding obligations are due in monthly and quarterly installments with maturities through June 2019.

The annual capital lease obligation at June 30, 2015 was as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Lease Payments</u>
2016	\$ 416
2017	202
2018	158
2019	102
2020	-
Total payments	<u>878</u>
Less interest	(54)
Total capital lease obligation	<u>\$ 824</u>

# CLAREMONT MCKENNA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015 and 2014  
(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, 2015 and 2014:

	2015	2014
Obligations incurred	\$ -	\$ -
Obligations settled	-	(152)
Accretion expense	29	34
Revisions in estimated cash flows	-	-
	<u>29</u>	<u>(118)</u>
Beginning balance	729	847
Ending balance	<u>\$ 758</u>	<u>\$ 729</u>

### NOTE 9 - LIFE INCOME AND ANNUITIES PAYABLE:

Life income and annuities payable of \$48,241 and \$44,046 at June 30, 2015 and 2014, 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, 2015 and 2014 also include \$6,477 and \$3,611, respectively, of releases to endowment within permanently restricted net assets.

### NOTE 10 - BONDS AND NOTES PAYABLE:

At June 30, 2015 and 2014, bonds payable was comprised of the following:

	2015	2014
Bonds issued through California Educational Facilities Authority (CEFA):		
Series 2007	\$ 38,235	\$ 38,940
Series 2009	83,095	83,095
Series 2011	5,235	5,480
Series 2012	29,460	29,745
	<u>156,025</u>	<u>157,260</u>
Notes issued through California Municipal Finance Authority (CMFA):		
2013 Tax-Exempt Loan	18,967	1,178
	<u>174,992</u>	<u>158,438</u>
Unamortized premium/(discount), net	<u>3,574</u>	<u>3,720</u>
Total bonds and notes payable	<u>\$ 178,566</u>	<u>\$ 162,158</u>

The CEFA Series 2007 bonds are due in 2038. Annual installments range from \$735 in 2016 to \$3,575 in 2038. Interest is payable semi-annually at rates ranging from 3.9% to 5.0%, at June 30, 2015. Bonds maturing after January 1, 2017 with principal balances totaling \$36,740 are subject to mandatory redemption at the outstanding principal balance plus accrued interest.

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

# CLAREMONT MCKENNA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015 and 2014  
(in thousands)

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

The CEFA Series 2011 bonds are due in 2030. Annual installments range from \$255 in 2016 to \$480 in 2030. Interest is payable semi-annually at rates ranging from 4.0% to 5.3%, at June 30, 2015. 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 \$300 in 2016 to \$22,260 in 2042. Interest is payable semi-annually at rates ranging from 2.3% to 5.0%, at June 30, 2015. Bonds maturing after January 1, 2033 are subject to mandatory redemption, in part, by lot, from mandatory sinking fund payments deposited. The Bonds maturing on January 1, 2042 are not subject to mandatory redemption prior to their stated maturity.

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

Interest expense was \$6,619 and \$6,868 for the years ended June 30, 2015 and 2014, respectively.

The maturity of notes and bonds payable at June 30, 2015, is as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Principal Amount</u>
2016	\$ 1,688
2017	1,741
2018	1,806
2019	1,881
2020	1,970
Thereafter	165,906
	<u>\$ 174,992</u>

The CMFA 2013 Tax Exempt Loan and the CEFA Series 2012, 2011, 2009, 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, 2015.

The College holds CEFA bonds that are reported at an amortized cost of \$156,025 and \$157,260 at June 30, 2015 and 2014, respectively, in the Statement of Financial Position. These CEFA bonds have an approximate fair value of \$170,566 and \$166,608 at June 30, 2015 and 2014, respectively. The College determined these CEFA bonds to be Level 2 measurements in the fair value hierarchy.

### NOTE 11 - ASSETS WHOSE USE IS LIMITED:

Indenture requirements of bond financing (see Note 10, "Bonds Payable") provide for the establishment and maintenance of various accounts with trustees. The indenture terms limit the use of these funds to capital expenditures and debt service payments as outlined in the agreements. Assets whose use is limited are comprised of cash equivalents and government obligations recorded at market value, which approximates fair value. Assets whose use is limited totaled \$3,818 and \$4,312, respectively, at June 30, 2015 and 2014.

# CLAREMONT MCKENNA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015 and 2014  
(in thousands)

### NOTE 12 - EMPLOYEE BENEFIT PLANS:

The College participates, with other members of The Claremont Colleges (Note 17), in a defined contribution retirement plan which provides retirement benefits to eligible personnel through Teachers Insurance and Annuity Association and The College Retirement Equity Fund. Under this defined contribution plan, College and participant contributions are used to purchase individual annuity contracts and investments equivalent to retirement benefits earned. Vesting provisions are full and immediate. Benefits commence upon retirement, and pre-retirement survivor death benefits are provided. College contributions to the plan for the years ended June 30, 2015 and 2014 totaled \$4,223 and \$4,060, respectively.

The Claremont University Consortium administers a defined benefit plan (the "Plan") covering substantially all nonacademic employees of the College, along with those of the other Claremont Colleges. The Plan is funded in accordance with the Employer Retirement Income Security Act of 1974 ("ERISA"). The benefits are based on a percent of each year's base compensation. Plan assets are invested primarily in a diversified group of equity and fixed-income securities. The College's allocation of the net pension cost for the years ended June 30, 2015 and 2014 was \$124 and \$201, respectively. A decision was made to curtail the Plan in June 2004. Under the curtailment, the accrued benefits earned at June 30, 2005 were frozen and no future benefits will be earned under the plan. The impact of the curtailment was a reduction to the benefit obligation. Eligible plan participants began receiving benefits under the defined contribution retirement plan in July 2005. Additional information on the Plan can be obtained from the audited financial statements of Claremont University Consortium.

### NOTE 13 - NET ASSETS:

At June 30, 2015 and 2014, net assets consists of the following:

	<u>2015</u>	<u>2014</u>
Unrestricted:		
For operations and designated purposes	\$ 6,350	\$ 3,817
Student loans	3,356	3,136
Board designated endowment funds	161,252	157,152
Plant facilities	91,560	80,802
Total unrestricted	<u>\$ 262,518</u>	<u>\$ 244,907</u>
Temporarily restricted:		
Restricted for specific purposes	\$ 94,723	\$ 104,002
Annuity and life income contracts and agreements	3,795	4,550
Term endowments	115,273	135,729
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:		
Without purpose restriction	18,215	20,088
With purpose restriction	197,083	210,904
Total temporarily restricted	<u>\$ 429,089</u>	<u>\$ 475,273</u>
Permanently restricted:		
Student loans	\$ 11,783	\$ 11,727
Annuity and life income contracts and agreements	7,686	13,158
Endowment	311,236	283,009
Total permanently restricted	<u>\$ 330,705</u>	<u>\$ 307,894</u>

**CLAREMONT MCKENNA COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2015 and 2014  
(in thousands)

**NOTE 14 - ENDOWMENT:**

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

Changes in the College's endowment for the year ended June 30, 2015 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015
Investment returns:				
Earned income	\$ 1,007	\$ -	\$ 95	\$ 1,102
Change in realized and unrealized net appreciation (depreciation) of investments	26,912	(27,805)	396	(497)
Net investment return	<u>27,919</u>	<u>(27,805)</u>	<u>491</u>	<u>605</u>
Endowment returns reinvested (or distributed for operations)	(31,172)	1,943	165	(29,064)
Net investment returns	<u>(3,253)</u>	<u>(25,862)</u>	<u>656</u>	<u>(28,459)</u>
Other changes in endowed equity:				
Gifts	-	(1,667)	19,742	18,075
Other additions, net	7,353	(8,621)	7,829	6,561
Total other changes in endowed equity	<u>7,353</u>	<u>(10,288)</u>	<u>27,571</u>	<u>24,636</u>
Net change in endowed equity	4,100	(36,150)	28,227	(3,823)
Endowed equity, beginning of year	157,152	366,721	283,009	806,882
Endowed equity, end of year	<u>\$ 161,252</u>	<u>\$ 330,571</u>	<u>\$ 311,236</u>	<u>\$ 803,059</u>

At June 30, 2015, endowed equity consists of the following assets:

Contributions receivable, net of discount	\$ -	\$ 57,182	\$ 12,006	\$ 69,188
Investments	161,252	273,389	299,230	733,871
Total endowed equity	<u>\$ 161,252</u>	<u>\$ 330,571</u>	<u>\$ 311,236</u>	<u>\$ 803,059</u>

CLAREMONT MCKENNA COLLEGE  
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015 and 2014  
 (in thousands)

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

Changes in the College's endowment for the year ended June 30, 2014 were as follows:

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

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

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

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 \$379 and \$273 at June 30, 2015 and 2014, respectively.

# CLAREMONT MCKENNA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

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June 30, 2015 and 2014  
(in thousands)

### NOTE 15 - NET STUDENT REVENUES:

Student revenues for the years ended June 30, 2015 and 2014 consist of the following:

	2015	2014
Tuition and fees	\$ 63,065	\$ 61,360
Room and board	16,350	15,779
Gross student revenues	<u>79,415</u>	<u>77,139</u>
Less financial aid:		
Sponsored	(16,228)	(14,620)
Un-sponsored	(3,692)	(6,179)
Total financial aid	<u>(19,920)</u>	<u>(20,799)</u>
Net student revenues	<u>\$ 59,495</u>	<u>\$ 56,340</u>

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

### NOTE 16 - INSTITUTIONAL SUPPORT FUNDRAISING EXPENSE:

Included in Institutional Support expenses are \$4,772 and \$4,508 of expenditures related to fundraising for the years ended June 30, 2015 and 2014, respectively.

### NOTE 17 - AFFILIATED INSTITUTIONS:

The College is a member of an affiliated group of colleges known as The Claremont Colleges. Each college is a separate corporate entity governed by its own board of trustees. Claremont University Consortium, a member of this group, is the central coordinating institution which provides common student and administrative services, including certain central facilities utilized by all The Claremont Colleges. The costs of these services and facilities are shared by the members of the group. Amounts paid by the College for such services and use of facilities for the years ended June 30, 2015 and 2014 totaled \$5,773 and \$5,611, respectively.

### NOTE 18 - RELATED PARTY TRANSACTIONS:

The College holds investments in certain limited partnerships in which certain members of the Board of Trustees are limited partners or are affiliated with management of the related partnerships. Investments at June 30, 2015 and 2014 totaled \$50,560 and \$20,506, respectively.

The College receives contributions and promises to give from members of the Board of Trustees. For the years ended June 30, 2015 and 2014, the College received \$23,343 and \$5,968, respectively, of total private gifts and grants from members of the Board of Trustees. At June 30, 2015 and 2014, contributions receivable from members of the Board of Trustees totaled \$139,189 and \$191,244, respectively.

# CLAREMONT MCKENNA COLLEGE

## NOTES TO THE FINANCIAL STATEMENTS

---

June 30, 2015 and 2014  
(in thousands)

### **NOTE 19 - COMMITMENTS AND CONTINGENCIES:**

Certain federal grants, including financial aid which the College administers and for which it receives reimbursements, are subject to audit and final acceptance by federal granting agencies. Current and prior year costs of such grants are subject to adjustment upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although the College expects such amounts, if any, would not have a significant impact on the financial position of the College.

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

### **NOTE 20 - SUBSEQUENT EVENTS:**

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

In October 2015, the Board of Trustees approved refunding and effecting defeasance of a portion of the College's outstanding debt, relating to the CEFA 2007 and CEFA 2009 issues, through issuance of new revenue bonds.

Subsequent events have been evaluated through October 26, 2015, which corresponds to the date when the financial statements are available for issuance.



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