Claremont McKenna College

2016–2017 Financial Report

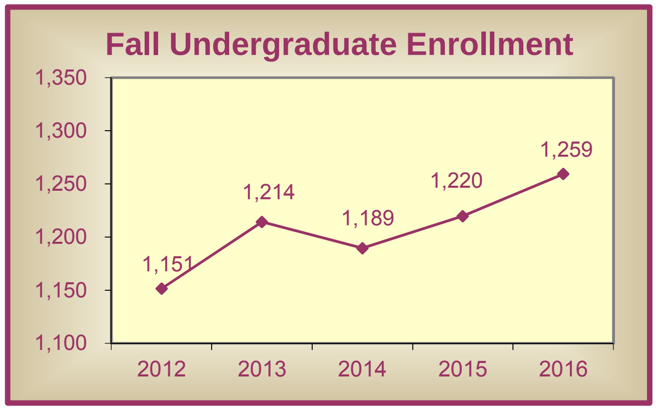
CLAREMONT MCKENNA COLLEGE
ANNUAL FINANCIAL REPORT

2017 and 2016

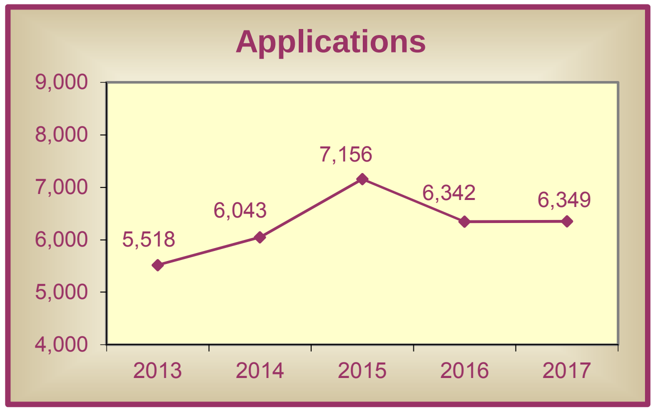
CONTENTS

Financial Highlights

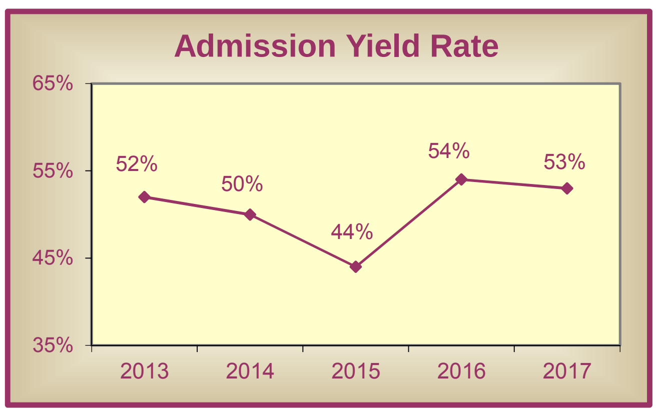
- Fall 2016 FTE enrollment in Claremont increased due to lower participation in study-abroad programs. Prior years reflect planned increases in enrollment due to additional housing capacity on campus. The average FTE enrollment in Claremont for the year (Fall and Spring) was 1,257. FTE enrollment, including off-campus and study-abroad programs, was 1,329.



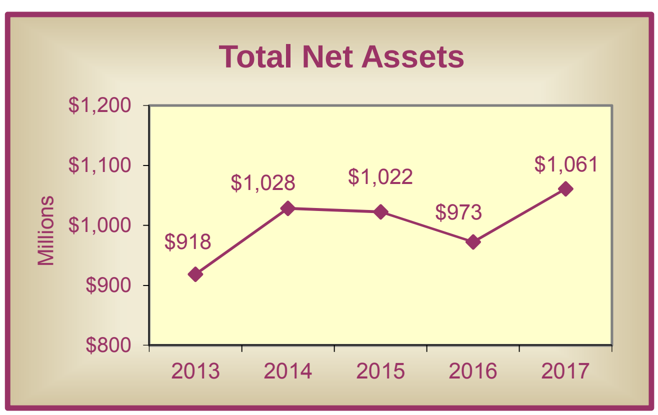
- Applications for admission in the Fall of 2017 were 6,349, consistent with the prior year. Applications for the last five years have averaged 6,282—approximately eighteen times more applications than openings in the entering class.



- The overall yield rate remained solid at 53% for the Fall of 2017. The total number of new freshmen entering the College in the Fall of 2017 was 352 students.

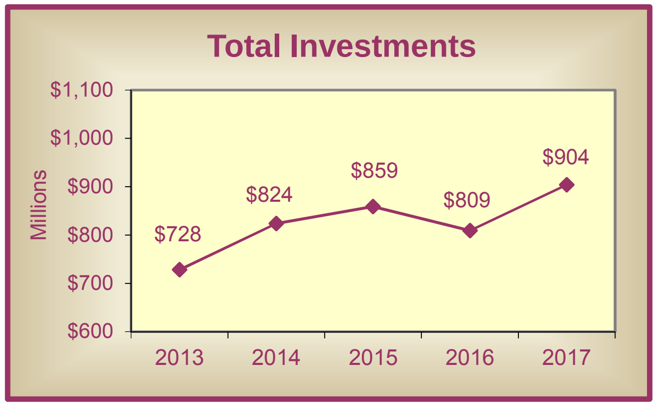


- Total net assets jumped by 9.1%, primarily driven by strong investment performance, as well as positive excess revenues over expenses from operations.

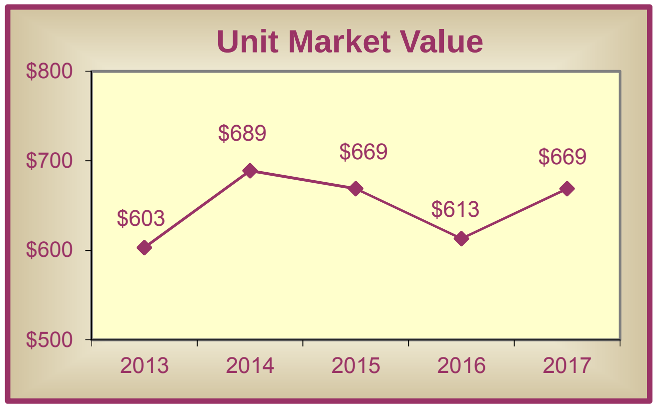


Financial Highlights

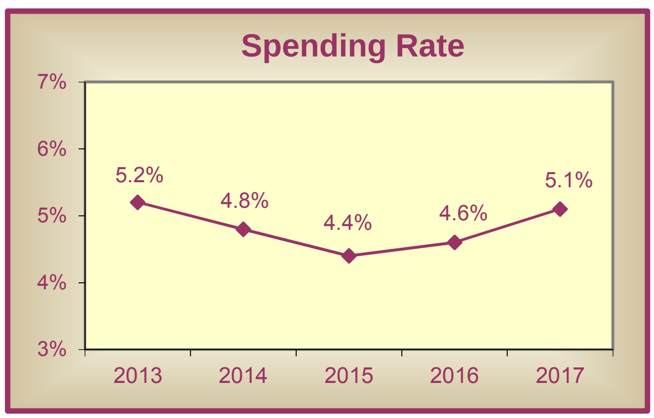
- Total investments increased by 11.7% in 2017, after fees and spending for operations. The net increase was primarily attributed to realized and unrealized gains on investments.



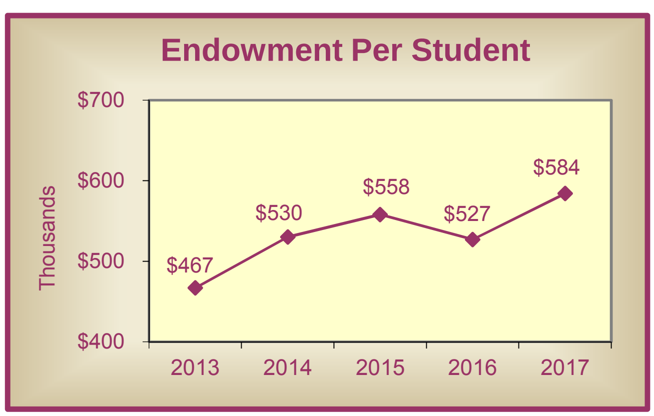
- The market value per unit in the College's investment pool increased by 9.1%. Unit market value reflects general market performance after spending for operations.



- The spending rate (spending amount per unit divided by unit market value at the beginning of the year) increased as a result of the decrease in the unit market value at the end of fiscal year 2016, which became the beginning of the year value for 2017.

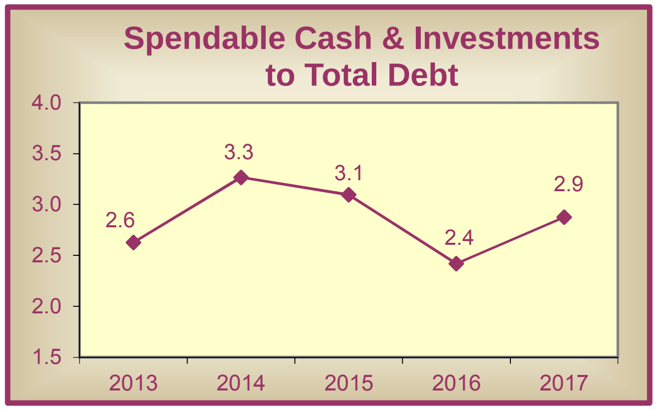


- Endowment per student increased as a result of the increased market value of the endowment. Total endowment at June 30, 2017 was $784 million, representing an all-time high for the College.

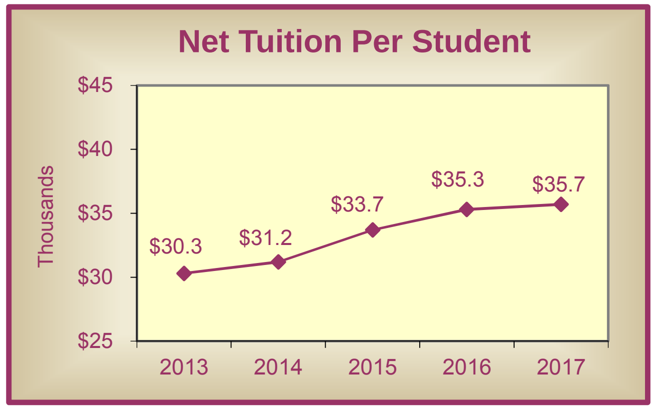


Financial Highlights

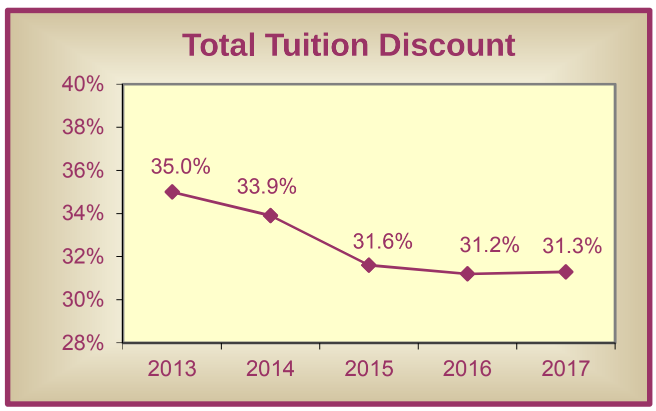
- Total spendable cash and investments to debt increased in 2017 as a result of an increase in total investments and a decrease in outstanding debt. CMC's ratio of 2.9 is consistent with the 2016 median value of 2.95 for Moody's Aa private institutions. Moody's Investors Services assigned a rating of Aa2 with a stable outlook to CMC's Series 2015 Revenue Bonds.



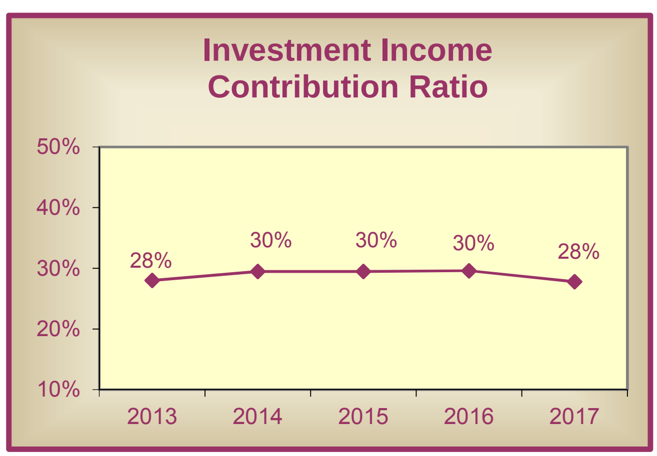
- CMC experienced growth in net tuition per student at a rate lower than the rate of increase in total tuition due to a slight increase in the total tuition discount. This dollar level places CMC higher than the 2016 median net tuition per student of $29,344 for Moody's Aa private institutions.



- 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 2016 median discount of 37% for Moody's Aa private institutions.

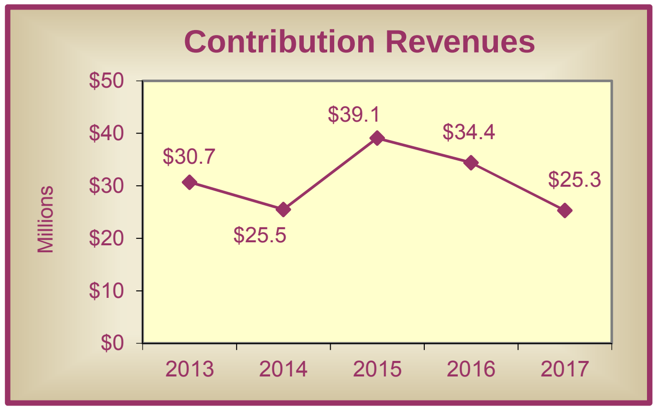


- CMC's endowment and a prudent spending policy produce sufficient investment income to make a significant contribution toward covering the operational costs of a CMC education. The investment income contribution ratio has remained steady over the past five years.

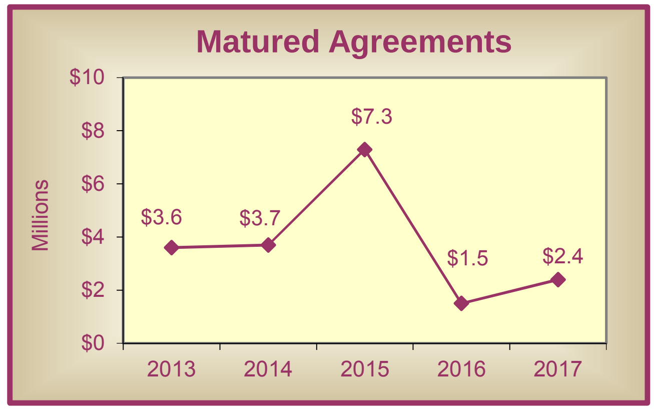


Financial Highlights

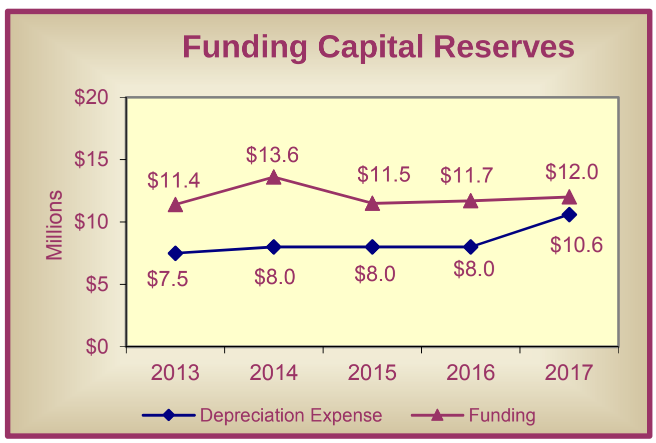
- Private gifts and grants reported by the Development Office were $38.3 million for the 2017 fiscal year. After actuarially adjusting the deferred gifts and adjusting for unconditional promises to give, total contribution revenues reported on the financial statements are $25.3 million.



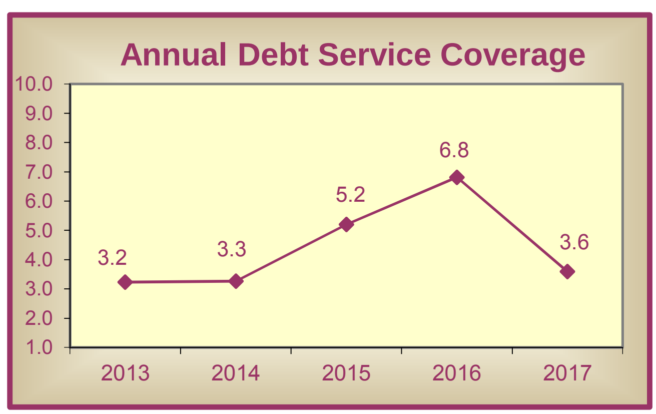
- Although unpredictable from year to year, matured annuity and life income agreements continue to provide significant resources to the College's endowment and operating funds.



- 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 is based on future anticipated replacement values. The funding of capital reserves has exceeded the amount of depreciation expense recorded in the financial statements over the past several fiscal years.



- Annual debt service coverage (the ability to make debt service payments from annual operations) decreased in 2017 due to a prior year debt restructuring which increased annual debt service. CMC's ratio is higher than the 2016 median value of 3.12 for Moody's Aa private institutions.



CLAREMONT McKENNA COLLEGE

Office of the Treasurer

October 25, 2017

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

Ladies and Gentlemen:

The fiscal year closed on June 30, 2017, on a positive note. The financial markets produced strong returns and the year progressed as planned from an operational standpoint. New gifts were strong, renovation projects were completed on time, and the financial statements and accompanying highlights reflect a stable environment.

The investment portfolio remains the College's largest asset, and is closely monitored by the Board's Investment Committee. The return on CMC's endowment for the year was 14.7%, net of fees. CMC's trailing five- and 10-year returns are tracking in the top 13% and 12%, respectively, in the Cambridge Associates database of preliminary returns for college and university investment pools. The investment returns, net of spending for operations and accompanied by new gifts to the endowment, account for an increase in total investments of 11.7% for the year. Total investments have increased by 24.2% over the last five years.

The spending rate increased to 5.1% for the fiscal year. This calculation is performed at the beginning of the fiscal year by dividing the formula-based spending per unit by the market value of a unit in the investment pool. The spending per unit is allowed 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. Investment income, in the form of spending allocations from the endowment, provides a significant and steady contribution toward funding the College's operating expenses.

The Admission Office recruited another impressive group of freshmen for Fall 2017. The 6,349 applicants for the class of 2021, recruited during the 2016-17 fiscal year, represented the second highest number to apply for approximately 330 spots in the entering class. Of the total applications received, 10.4% were accepted (admission rate), and 53.5% were enrolled (yield rate). These are comparable to the admission and yield rates for the prior year, and continue to define CMC's status as one of the most selective liberal arts colleges in the country. The combined median SAT score was 1400; the median ACT composite score was 32. Only 43% of our ultimately 352 enrolled freshmen are from California; another 39% represent domestic students from 33 states and territories outside of California and 17% are international students, representing 26 countries. The average FTE undergraduate enrollment in Claremont for the 2016-17 fiscal year increased to an all-time high of 1,257 students from 1,224 in the previous year.

There was relatively little change to the net tuition per student and the total tuition discount. College affordability is a regular topic for the Board of Trustees, which strives to keep tuition increases as low as possible while slowly increasing the total tuition discount through incremental fundraising, such as *The Student Imperative* campaign. This completed campaign focused on providing gifts, pledges, and other commitments for both need-based and merit financial aid programs, and will provide additional resources to strengthen the College's commitment to its need-blind admission policy and meet-all-need financial aid policy as pledge payments continue to be received. After five years of providing need-based 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 in the fall of 2014. By the end of June 2017, financial aid packages for three classes included modest loans, which drove changes in the net tuition per student and tuition discount over this same time period. The revised loan policy was fully implemented for all students with the incoming class in the fall of 2017.

Statements of Financial Position

Total assets at the end of June 30, 2017, increased 6.7% over the previous year, primarily because of increases in investments related to market performance. The increase in assets was offset by a decrease in contributions receivable as payments toward multi-year pledges were received. Total liabilities decreased 2.0% primarily as a result of regularly scheduled payments on outstanding debt.

The Soll Center for Student Opportunity was opened in the fall of 2016 within the Emett Student Center, which provides an inviting space in the center of campus for Career Services, the Sponsored Internship Program, and the growing Scholar Communities. These services connect students with internships, fellowships, graduate and professional programs, and post-graduate employment in business, government, and the professions. The College completed a major site improvement project during the summer of 2016 that connects the newly opened Roberts Pavilion to the residence halls in the Mid-Quad and South-Quad, and expanded the connections and pathways to the north along Parents Field. A significant renovation of Collins Dining Hall was completed at the end of the summer of 2017 that included a complete refresh of the dining room, upgrades in the serving area, and replacement of rooftop mechanical HVAC equipment.

A generous donation of public art from George Roberts was installed in early 2017 at the site of the original Story House. The new sculpture, designed by Ellsworth Kelly, represents the third work by world-renowned artists added to CMC's collection since the Board of Trustees recently launched its public art initiative.

Statement of Activities

The statement of activities provides greater detail of the changes in net assets during the fiscal year. Overall, total revenues decreased by 2.6%, while total expenses increased by 9.5% over the prior year, with varying degrees of changes in individual line items. Net assets increased 9.1% from the prior year, primarily driven by realized and unrealized gains on investments.

Net student revenues grew 4.0% due to an unexpected increase in enrollment and in the number of students living on campus, in addition to the normal increases in student charges. Although the housing capacity had recently been increased with the additions to and renovations of the

Mid-Quad residence halls, several nearby apartments were rented to meet the housing demand for the year. The College received $25.3 million in private gifts and grants, which were near the fundraising goals set for the year by the Development Office. The incremental gifts to the endowment, including subsequent payments on prior year pledges, are also reflected in the 7.9% increase in spending policy income.

A sizeable increase in the student services line item of 27.1% is primarily related to the opening and first year of operations of Roberts Pavilion, the new state-of-the-art fitness and event center for CMC and athletic center for the Claremont-Mudd-Scripps intercollegiate, intramural, and physical education program. The Board also approved an increase in the staffing and services offered by the Dean of Students Office, which will be phased over two years, beginning in the 2016-17 fiscal year. Auxiliary enterprise expenses increased 17.84% with incremental allocations of interest costs from outstanding debt on residence halls and for the costs of renting and operating off-campus apartments to fulfill the demand for student housing beyond what could be offered on campus.

In order to protect the recent investment in facilities, the College follows a strategy of transferring 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 Campus Planning & Facilities and Finance Committees of the Board of Trustees. Both Committees, with support from the Board, recently confirmed the continuation of this strategy.

The College implemented a new accounting system, Workday Financials, at the beginning of the 2015-16 fiscal year as a joint project with all of The Claremont Colleges (TCC). TCC again joined together to implement Workday's Human Capital Management system, which will go live on January 1, 2018. The undergraduate institutions in Claremont recently agreed to move forward with implementation of a new student information system with a projected implementation timeline of about three years. The various system changes will ultimately provide valuable recordkeeping and analytic tools using modern technology.

Statements of Cash Flows

Net cash flows decreased by $346,000 in fiscal year 2016-17. The net cash used in operating activities of $18 million and financing activities of $1.7 million was offset by net cash provided by investing activities of $19.4 million. Investing 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

CMC maintains its strong financial management practices in support of the campus community, both in the present and in planning for the future. The endowment continues to grow, thanks to generous donors and prudent stewardship by the Board of Trustees. The physical campus has never looked better and visitors to the campus, including prospective students, families, and returning alumni are continually impressed by the many programs and amenities that CMC is able to offer.

The 2017-18 fiscal year is off to a great start. The President and Board of Trustees, along with faculty and staff, are developing a strategy to guide the College over the next several years to further enhance the excellent educational experience and outstanding opportunities for all students at CMC.

Respectfully submitted,

Robin J. Aspinall

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

MOSSADAMS

Report of Independent Auditors

The Board of Trustees
Claremont McKenna College

Report on the Financial Statements

We have audited the accompanying financial statements of Claremont McKenna College, which comprise the statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Los Angeles, California
October 25, 2017

CLAREMONT MCKENNA COLLEGE
STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016
(in thousands)

	2017	2016
ASSETS		
Cash	$ 563	$ 909
Accounts and notes receivable, net (Note 2)	15,633	18,459
Prepaid expenses and deposits	5,590	5,559
Contributions receivable, net (Note 3)	117,130	125,145
Beneficial interest in trusts (Note 3)	401	876
Investments (Note 4)	903,609	809,054
Plant facilities, net (Note 6)	283,244	283,418
Total assets	$ 1,326,170	$ 1,243,420
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 13,164	$ 15,787
Funds held in trust for others	3,883	3,669
Deposits and deferred revenues	2,185	1,978
Life income and annuities payable (Note 9)	50,911	49,390
Capital lease obligation (Note 7)	1,313	1,346
Bonds and note payable (Note 10)	191,756	196,057
Government advances for student loans	1,364	1,812
Asset retirement obligation (Note 8)	819	788
Total liabilities	265,395	270,827
Net Assets (Note 13):		
Unrestricted	295,715	258,922
Temporarily restricted	374,188	334,980
Permanently restricted	390,872	378,691
Total net assets	1,060,775	972,593
Total liabilities and net assets	$ 1,326,170	$ 1,243,420

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

CLAREMONT MCKENNA COLLEGE
STATEMENT OF ACTIVITIES

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Student revenues	$ 87,708	$ -	$ -	$ 87,708
Less: Financial aid	(21,611)	-	-	(21,611)
Net student revenues (Note 15)	66,097	-	-	66,097
Private gifts and grants	3,356	18,230	3,670	25,256
Federal grants	1,183	-	-	1,183
Private contracts	700	-	-	700
Spending policy income	9,631	26,430	175	36,236
Other investment income	1,252	-	5	1,257
Other revenues	3,322	-	-	3,322
Release of net assets				
Restricted gifts	24,081	(24,072)	(9)	-
Restricted spending policy income	21,250	(21,250)	-	-
Annuity and life income	672	(623)	(49)	-
Total revenues	131,544	(1,285)	3,792	134,051
Expenses:				
Instruction	38,640	-	-	38,640
Research	9,382	-	-	9,382
Academic support	8,106	-	-	8,106
Student services	18,595	-	-	18,595
Institutional support	19,587	-	-	19,587
Auxiliary enterprises	21,208	-	-	21,208
Total expenses	115,518	-	-	115,518
Excess (Deficit) of revenues over expenses	16,026	(1,285)	3,792	18,533
Other changes in net assets:				
Realized and unrealized gains, net of spending allocation	15,455	49,554	1,647	66,656
Gain on sale of property	186	-	-	186
Realized gains (losses) on contributions receivable	-	1,118	(30)	1,088
Release of net assets				
Plant facilities	5,873	(5,873)	-	-
Transfers to Claremont University Consortium	(27)	-	-	(27)
Actuarial adjustment	81	606	1,059	1,746
Donor redesignations between net asset categories	(801)	(4,912)	5,713	-
Change in net assets	36,793	39,208	12,181	88,182
Net assets at beginning of year	258,922	334,980	378,691	972,593
Net assets at end of year	$ 295,715	$ 374,188	$ 390,872	$ 1,060,775

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

CLAREMONT MCKENNA COLLEGE
STATEMENT OF ACTIVITIES

For the year ended June 30, 2016
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Student revenues	$ 84,782	$ -	$ -	$ 84,782
Less: Financial aid	(20,963)	-	-	(20,963)
Net student revenues (Note 15)	63,819	-	-	63,819
Private gifts and grants	4,478	21,778	8,159	34,415
Federal grants	912	-	-	912
Private contracts	1,140	-	-	1,140
Spending policy income	8,984	24,360	249	33,593
Other investment income	1,494	10	25	1,529
Other revenues	2,227	4	-	2,231
Release of net assets				
Restricted gifts	19,809	(19,809)	-	-
Restricted spending policy income	20,782	(20,782)	-	-
Annuity and life income	454	(454)	-	-
Total revenues	124,099	5,107	8,433	137,639
Expenses:				
Instruction	37,127	-	-	37,127
Research	8,260	-	-	8,260
Academic support	8,650	-	-	8,650
Student services	14,632	-	-	14,632
Institutional support	18,856	-	-	18,856
Auxiliary enterprises	17,997	-	-	17,997
Total expenses	105,522	-	-	105,522
Excess of revenues over expenses	18,577	5,107	8,433	32,117
Other changes in net assets:				
Realized and unrealized losses, net of spending allocation	(12,711)	(46,604)	(795)	(60,110)
Loss on bond defeasance	(15,909)	-	-	(15,909)
Realized losses on contributions receivable (Note 3)	-	(1,250)	(553)	(1,803)
Release of net assets				
Plant facilities	7,071	(7,071)	-	-
Transfers to Claremont University Consortium	(439)	-	-	(439)
Actuarial adjustment	(17)	(972)	(2,689)	(3,678)
Staff retirement plan comprehensive gain	103	-	-	103
Donor redesignations between net asset categories	(271)	(43,319)	43,590	-
Change in net assets	(3,596)	(94,109)	47,986	(49,719)
Net assets at beginning of year	262,518	429,089	330,705	1,022,312
Net assets at end of year	$ 258,922	$ 334,980	$ 378,691	$ 972,593

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

CLAREMONT MCKENNA COLLEGE
STATEMENTS OF CASH FLOWS

For the years ended June 30, 2017 and 2016
(in thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 88,182	$ (49,719)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	10,599	7,974
Amortization and accretion expense	(572)	(558)
Gain on disposal of plant facilities	(186)	-
Contribution of works of art	(4,894)	(2,500)
Allowance for doubtful accounts	35	24
Comprehensive gain on staff retirement plan	-	(103)
Discount on life income contract gifts	3,336	(4,285)
Realized and unrealized (gain)/loss on investments	(111,958)	34,307
Loss on debt defeasance	-	15,909
Non-cash gifts	(2,802)	(6,582)
Adjustment of actuarial liability for annuities payable	2,199	11,333
Decrease in accounts and contributions receivable	7,942	320
Decrease/(increase) in beneficial interest in trusts	(25)	23
Decrease/(increase) in prepaid expenses and deposits	(30)	234
Decrease in accounts payable and accrued liabilities	(2,623)	(4,645)
(Decrease)/increase in funds held in trust for others	214	(161)
(Decrease)/increase in deposits and deferred revenues	207	(177)
Contributions restricted for long-term investments	(7,697)	(10,739)
Defined benefit plan contributions over expense	-	(1,132)
Net cash used in operating activities	(18,073)	(10,477)
Cash flows from investing activities:		
Purchase of plant facilities	(5,861)	(38,470)
Proceeds from sales of plant facilities	866	-
Purchases of investments	(610,125)	(866,415)
Proceeds from sales of investments	633,390	907,489
Loans made to students and employees	(1,044)	(1,503)
Collection of student and employee loans	2,173	1,964
Net cash provided by investing activities	19,399	3,065
Cash flows from financing activities:		
Payments to annuity and life income beneficiaries	(6,443)	(6,231)
Investment income for annuity and life income investments	1,602	156
Proceeds from bonds and notes payable	-	7,019
Debt issuance costs	-	(1,150)
Principal payments for bonds and notes payable	(4,082)	(2,207)
Contributions restricted for life income contracts	2,732	3,864
Contributions restricted for endowment	4,191	5,246
Contributions restricted for plant expenditures and student loans	775	1,629
Decrease in government advances for student loans	(447)	(1,425)
Net cash (used in)/provided by financing activities	(1,672)	6,901
Net decrease in cash	(346)	(511)
Cash at beginning of year	909	1,420
Cash at end of year	$ 563	$ 909

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

For the years ended June 30, 2017 and 2016
(in thousands)

	2017	2016
Supplemental disclosure of cash flows:		
Interest paid	$ 7,015	$ 5,727
Supplemental disclosure of noncash financing activity:		
Capital lease obligation	$ 350	$ 967

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

June 30, 2017 and 2016

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.

June 30, 2017 and 2016

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, 2017 and 2016. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the investments. Because non-marketable investments are not readily marketable, the estimated value is subject to uncertainty and such differences could be material.

June 30, 2017 and 2016

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

Investments: *Continued*

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

Derivatives:

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

Management of Pooled Investments:

The College follows an investment policy which anticipates a greater long-term return through investing for capital appreciation, and accepts lower current yields from dividends and interest. In order to offset the effect of lower current yields for current operations, the Board of Trustees has adopted a spending policy for pooled investments. If the ordinary income portion of pooled investments return is insufficient to provide the full amount of investment return specified, the balance may be appropriated from realized gains of the pooled investments. Cumulative net realized gains and transfers of ordinary income in excess of the spending policy ("cumulative gains") are held in their respective net asset categories and are available for appropriation under the College's spending policy. At June 30, 2017 and 2016, these cumulative gains totaled approximately $77,438,000 and $84,521,000, respectively. The Board of Trustees may, at its discretion, approve additional spending for special projects. The amount of investment return available for current operations will be determined by applying an increase of 2.0% to the prior year unit spending rate, provided that the resulting calculation falls within a collar of 4.5% to 5.5% of a twenty quarter average unit market value.

Endowment Funds:

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

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

June 30, 2017 and 2016

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

Plant Facilities:

Plant facilities consist of property, plant, equipment and works of art which are stated at cost, representing the original purchase price or the fair 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, 2017 and 2016. 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, 2017 and 2016.

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 statement of activities.

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.

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 investment funds are valued based upon inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities; and are therefore included within Level 2.

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

June 30, 2017 and 2016
(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 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.

Accounting Standards Adoption:

In August 2014, the Financial Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (Subtopic 205-40)*, which requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for annual periods after December 15, 2016. The College has implemented this guidance as of and for the year ended June 30, 2017. There was no impact to the College as a result of this guidance.

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, 2017 and 2016 are as follows:

	2017	2016
Student notes receivable	$ 8,523	$ 9,624
Federal loan funds	1,205	1,427
Other Claremont Colleges	822	1,897
Student accounts receivable	379	338
Grants and contracts receivable	679	234
Housing assistance notes receivable	3,110	3,054
Other	1,511	2,514
	16,229	19,088
Less allowance for doubtful accounts receivable	(596)	(629)
Net accounts and notes receivable	$ 15,633	$ 18,459

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%.

June 30, 2017 and 2016
(in thousands)

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

Contributions receivable at June 30, 2017 and 2016 are expected to be realized as follows:

	2017	2016
Within one year	$ 21,773	$ 16,713
Between one year and five years	69,326	74,532
More than five years	41,669	54,372
	132,768	145,617
Less discount	(15,375)	(18,737)
Less allowance for doubtful contributions receivable	(263)	(1,735)
Net contributions receivable	$ 117,130	$ 125,145

Contributions receivable at June 30, 2017 and 2016 are intended for the following uses:

	2017	2016
Endowment	$ 48,915	$ 49,634
Plant	7,129	4,333
Other	61,086	71,178
Net contributions receivable	$ 117,130	$ 125,145

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 $370 of the total realized losses on contributions receivable as of June, 30 2016.

At June 30, 2017, 81.2% of the contributions receivable were due from three donors. At June 30, 2016, 80.6% of the contributions receivable were due from three donors.

At June 30, 2017 and 2016, the College had knowledge of conditional promises to give in the amount of $4,421 and $2,652, respectively. The promises will be recognized as revenue when the conditions are met.

Conditional promises to give at June 30, 2017 and 2016 are intended for the following uses:

	2017	2016
Endowed chairs for new and existing faculty positions	$ 1,302	$ 1,302
General purposes of the College	3,119	1,350
Net conditional promises to give	$ 4,421	$ 2,652

At June 30, 2017 and 2016, the College held beneficial interest in outside trusts of $401 and $876, respectively. These trusts are administered by outside trustees, with the College deriving income and/or a residual interest from the assets. When an irrevocable trust is established or the College is notified of its existence, the College recognizes its beneficial interest in the trust as a contribution at fair value, which is measured as the present value of the estimated expected future benefits to be received when the trust assets are distributed. The contribution revenue recognized is classified as an increase in either temporarily or permanently restricted net assets based on the time or use restrictions placed by the donor upon the College's beneficial interest in the assets. Periodic adjustments to the beneficial interest to reflect changes in the fair value, life expectancy, and discount rate are recognized as actuarial gains or losses. The discount rates used are commensurate with the risks associated with the contribution.

June 30, 2017 and 2016
(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, 2017 and 2016:

	Pooled Investments Fund	
	2017	2016
Unit market value at end of year	$ 668.58	$ 613.02
Units owned:		
Unrestricted:		
Funds functioning as endowment	264,742	256,640
Temporarily restricted:		
Annuity and life income contracts and agreements	16,449	17,201
Endowment	60,679	71,512
Total temporarily restricted	77,128	88,713
Permanently restricted:		
Endowment	843,659	819,688
College loan investments	2,639	2,639
Annuity and life income contracts and agreements	45,065	44,031
Total permanently restricted	891,363	866,358
Total units	1,233,233	1,211,711

Investment income related to the College's pooled investments for the years ended June 30, 2017 and 2016, net of management and custody fees of $3,482 and $2,822, respectively, is as follows:

Amounts allocated in accordance with spending policy for pooled investments:	2017	2016
Net pooled investment income	$ 2,638	$ 3,445
Pooled investment gains appropriated	35,522	32,027
Total spending policy income and gains	38,160	35,472
Other investment income	1,257	1,529
Less amounts allocated to annuity and life income contracts and agreements	(1,924)	(1,879)
Total investment income	37,493	35,122
Realized and unrealized gains/(losses), net of spending allocation	67,744	(61,913)
Total investment returns	$ 105,237	$ (26,791)

June 30, 2017 and 2016
(in thousands)

NOTE 4 - INVESTMENTS: *Continued*

It is the College's policy to establish and maintain a diversified investment portfolio. The carrying value of investments are based on the quoted market prices, analytical pricing methods for investments for which there is no market, and the carrying value of limited partnership net assets in proportion to the College's interest. The carrying values are considered fair values. The following schedule summarizes the assets in pooled investments and the assets held as separate investments at June 30, 2017 and 2016:

	2017	2016
Cash equivalents	$ 32,658	$ 30,470
Cash equivalents - limited use (Note 11)	3,433	3,867
Domestic equities	223,186	225,956
International equities	193,892	165,136
Domestic treasuries	69,661	30,942
Global fixed income	38,277	36,844
Bank loans and mortgage securities	30,864	33,682
Private investments:		
Long/short equity	58,836	55,146
Absolute return funds	68,126	62,712
Private equity and venture capital	132,797	117,507
Real estate, energy, and timber	51,879	46,792
Total investments	$ 903,609	$ 809,054

By category:	2017	2016
Endowment and funds functioning as endowment:		
Pooled investments	$ 781,623	$ 703,650
Separately invested	2,740	5,456
Total endowment and funds functioning as endowment	784,363	709,106
Annuity and life income contracts:		
Pooled investments	41,127	37,537
Separately invested	21,990	21,168
Total annuity and life income contracts and agreements	63,117	58,705
Other:		
Pooled	1,765	1,618
Separately invested	54,364	39,625
Total other	56,129	41,243
Total by category	$ 903,609	$ 809,054

June 30, 2017 and 2016
(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, 2017 and 2016:

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

	Level 1	Level 2	Level 3	Assets held at NAV or equivalent	2016
Cash equivalents	$ 30,415	$ 55	$ -	$ -	$ 30,470
Cash equivalents - limited use	3,867	-	-	-	3,867
Domestic equities	129,914	-	-	96,042	225,956
International equities	7,942	-	-	157,194	165,136
Domestic treasuries	-	30,942	-	-	30,942
Global fixed income	4,626	-	-	32,218	36,844
Bank loans and mortgage securities	-	-	-	33,682	33,682
Private investments:					
Long/short equity	-	-	-	55,146	55,146
Absolute return	-	-	-	62,712	62,712
Private equity and venture capital	-	-	-	117,507	117,507
Real estate, energy, and timber	-	-	764	46,028	46,792
Beneficial interest in trusts	-	-	876	-	876
Total	$ 176,764	$ 30,997	$ 1,640	$ 600,529	$ 809,930

June 30, 2017 and 2016
(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, 2017 and 2016:

	Private investments: Real estate, energy, and timber	Beneficial interest in trusts	Total
Balance at June 30, 2015	$ 1,268	$ 899	$ 2,167
Purchases	9	-	9
Sales	(482)	-	(482)
Realized loss, net	(25)	-	(25)
Unrealized loss, net	(6)	-	(6)
Actuarial adjustment	-	(23)	(23)
Balance at June 30, 2016	764	876	1,640
Sales	(40)	(500)	(540)
Realized loss, net	(4)	-	(4)
Actuarial adjustment	-	25	25
Balance at June 30, 2017	$ 720	$ 401	$ 1,121

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, 2017 and 2016 of $0 and ($6), 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, 2017:

	Fair Value at June 30, 2017	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Domestic equities	$ 101,678	none	7 to 90 days	1 to 60 days	(1)
International equity funds	188,157	none	1 to 90 days	1 to 60 days	(1)
Global fixed income	33,619	none	Daily	5 to 10 days	(1)
Bank loans and mortgage securities	30,864	none	30 to 90 days	30 to 90 days	(1)
Long/short equity	58,836	none	30 days to 3 years	60 to 90 days	(2)
Absolute return	68,126	$ 1,254	60 to 90 days	45 to 90 days	(2)
Private equity and venture capital	132,797	71,642	N/A	N/A	(3)
Real estate, energy, and timber	51,159	51,961	N/A	N/A	(3)
Total	$ 665,236	$ 124,857			

June 30, 2017 and 2016
(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, 2017 and 2016 consists of the following:

	2017	2016
Land and land improvements	$ 25,791	$ 20,828
Buildings and permanent improvements	306,682	304,703
Equipment	26,976	26,977
Works of art	8,474	3,580
Equipment under capital lease	2,594	3,268
Property held for future use	15,074	14,531
Construction in progress	3,053	5,463
	388,644	379,350
Less accumulated depreciation	(105,400)	(95,932)
Net plant facilities	$ 283,244	$ 283,418

At June 30, 2017 and 2016, the amount of capitalized interest included in construction in progress was $0 and $88, 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 2022.

June 30, 2017 and 2016
(in thousands)

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

The annual capital lease obligation at June 30, 2017 was as follows:

Fiscal Years Ending June 30,	Lease Payments
2018	$ 450
2019	393
2020	292
2021	223
2022	58
Total payments	1,416
Less interest	(103)
Total capital lease obligation	$ 1,313

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, 2017 and 2016:

	2017	2016
Obligations incurred	$ -	$ -
Obligations settled	-	-
Accretion expense	31	30
Revisions in estimated cash flows	-	-
	31	30
Beginning balance	788	758
Ending balance	$ 819	$ 788

NOTE 9 - LIFE INCOME AND ANNUITIES PAYABLE:

Life income and annuities payable of $50,911 and $49,390 at June 30, 2017 and 2016, 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, 2017 and 2016 also include $1,740 and $1,000, respectively, of releases to endowment within permanently restricted net assets.

June 30, 2017 and 2016
(in thousands)

NOTE 10 - BONDS AND NOTE PAYABLE:

At June 30, 2017 and 2016, bonds payable was comprised of the following:

	2017	2016
Bonds issued through California Educational Facilities Authority (CEFA):		
Series 2007	$ 11,135	$ 11,895
Series 2011	4,715	4,980
Series 2012	28,850	29,160
Series 2015	109,955	111,785
	154,655	157,820
Note issued through California Municipal Finance Authority (CMFA):		
2013 Tax-Exempt Loan	23,831	24,364
	178,486	182,184
Unamortized cost of issuance	(1,820)	(1,907)
Unamortized premium/(discount), net	15,090	15,780
Total bonds and note payable	$ 191,756	$ 196,057

The CEFA Series 2007 bonds were partially defeased through the issuance of CEFA Series 2015 bonds and the remaining Series 2007 bonds are due in 2038. Annual installments range from $240 in 2019 to $1,025 in 2038. Interest is payable semi-annually at a rate of 5.0%, at June 30, 2017. Bonds maturing after January 1, 2017 with principal balances totaling $11,895 are subject to mandatory redemption at the outstanding principal balance plus accrued interest.

The CEFA Series 2009 bonds were fully defeased by the CEFA Series 2015 bond issue. A loss of $15,909 was recognized for the year ending June 30, 2016, representing a difference between the amount of the defeased CEFA 2007 and CEFA 2009 bonds and the net carrying value of the new debt.

The CEFA Series 2011 bonds are due in 2030. Annual installments range from $275 in 2018 to $480 in 2030. Interest is payable semi-annually at rates ranging from 4.0% to 5.3%, at June 30, 2017. 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 $320 in 2018 to $22,260 in 2042. Interest is payable semi-annually at rates ranging from 2.3% to 4.0%, at June 30, 2017. Bonds maturing after January 1, 2033 are subject to mandatory redemption, in part, by lot, from mandatory sinking fund payments deposited. The Bonds maturing on January 1, 2042 are not subject to mandatory redemption prior to their stated maturity.

The CEFA Series 2015 bonds are due in 2039. Annual installments range from $1,950 in 2018 to $8,210 in 2038. Interest is payable semi-annually at rates ranging from 4.0% to 5.0%, at June 30, 2017. Bonds maturing after January 1, 2035 with principal balances totaling $37,135 are subject to mandatory redemption at the outstanding principal balance plus accrued interest.

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

June 30, 2017 and 2016
(in thousands)

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

Interest expense was $7,206 and $3,325 for the years ended June 30, 2017 and 2016, respectively.

The maturity of notes and bonds payable at June 30, 2017, is as follows:

Fiscal Years Ending June 30,	Principal Amount
2018	$ 3,887
2019	4,092
2020	4,316
2021	4,559
2022	4,796
Thereafter	156,836
	$ 178,486

The CMFA 2013 Tax Exempt Loan and the CEFA Series 2015, 2012, 2011, and 2007, bond agreements contain various restrictive covenants which include maintenance of certain financial ratios, as defined in the agreements.

In December 2013, the College entered into an unsecured $10,000,000 line of credit agreement with a bank. Any borrowings under the line would bear interest payable monthly at the Prime Rate less 100 basis points. There were no borrowings outstanding on the line at June 30, 2017.

The College holds CEFA bonds that are reported at an amortized cost of $154,655 and $157,820 at June 30, 2017 and 2016, respectively, in the Statement of Financial Position. These CEFA bonds have an approximate fair value of $170,819 and $184,472 at June 30, 2017 and 2016, 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 $3,433 and $3,867, respectively, at June 30, 2017 and 2016.

June 30, 2017 and 2016
(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, 2017 and 2016 totaled $4,478 and $4,307, respectively.

The Claremont University Consortium administered a defined benefit plan (the "Plan") covering substantially all nonacademic employees of the College, along with those of the other Claremont Colleges. The Plan was funded in accordance with the Employer Retirement Income Security Act of 1974 ("ERISA"). The benefits were based on a percent of each year's base compensation. Plan assets were 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, 2017 and 2016 was $0 and $305, 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 were earned under the Plan. On March 4, 2014, the Council of the Claremont Colleges ("Council") passed a resolution to terminate the Plan effective June 30, 2014, and to amend the Plan to offer a single lump sum distribution option in addition to the other forms of distribution available under the Plan. As of June 30, 2016, all plan assets were liquidated to fund the financial obligation of the plan termination. Accrued benefit liability and employer contributions were allocated to each of The Claremont Colleges based on participant data or other methods deemed appropriate by the Plan's actuary. Additional information on the Plan can be obtained from the audited financial statements of the Claremont University Consortium.

NOTE 13 - NET ASSETS:

At June 30, 2017 and 2016, net assets consists of the following:

	2017	2016
Unrestricted:		
For operations and designated purposes	$ 9,528	$ 6,998
Student loans	4,319	3,718
Board designated endowment funds	177,036	157,190
Plant facilities	104,832	91,016
Total unrestricted	$ 295,715	$ 258,922
Temporarily restricted:		
Restricted for specific purposes	$ 86,443	$ 92,628
Annuity and life income contracts and agreements	3,186	1,962
Term endowments	66,090	83,910
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:		
Without purpose restriction	18,184	15,519
With purpose restriction	200,285	140,961
Total temporarily restricted	$ 374,188	$ 334,980
Permanently restricted:		
Student loans	$ 11,933	$ 11,872
Annuity and life income contracts and agreements	7,256	5,659
Endowment	371,683	361,160
Total permanently restricted	$ 390,872	$ 378,691

June 30, 2017 and 2016
(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, 2017 were as follows:

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

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

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

June 30, 2017 and 2016
(in thousands)

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

Changes in the College's endowment for the year ended June 30, 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016
Investment returns:				
Earned income	$ 3,445	$ -	$ 24	$ 3,469
Change in realized and unrealized net appreciation (depreciation) of investments	19,898	(46,722)	(811)	(27,635)
Net investment return	23,343	(46,722)	(787)	(24,166)
Endowment returns reinvested (or distributed for operations)	(33,656)	3,028	168	(30,460)
Net investment returns	(10,313)	(43,694)	(619)	(54,626)
Other changes in endowed equity:				
Gifts	-	2,094	6,507	8,601
Other changes	6,251	(48,581)	44,036	1,706
Total other changes in endowed equity	6,251	(46,487)	50,543	10,307
Net change in endowed equity	(4,062)	(90,181)	49,924	(44,319)
Endowed equity, beginning of year	161,252	330,571	311,236	803,059
Endowed equity, end of year	$ 157,190	$ 240,390	$ 361,160	$ 758,740

At June 30, 2016, endowed equity consists of the following assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016
Contributions receivable, net of discount	$ -	$ 39,936	$ 9,698	$ 49,634
Investments	157,190	200,454	351,462	709,106
Total endowed equity	$ 157,190	$ 240,390	$ 361,160	$ 758,740

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 $369 and $4,418 at June 30, 2017 and 2016, respectively. Deficiencies for donor-restricted endowment funds were recorded as a reduction in unrestricted endowments.

June 30, 2017 and 2016
(in thousands)

NOTE 15 - NET STUDENT REVENUES:

Student revenues for the years ended June 30, 2017 and 2016 consist of the following:

	2017	2016
Tuition and fees	$ 69,068	$ 67,172
Room and board	18,640	17,610
Gross student revenues	87,708	84,782
Less financial aid:		
Sponsored	(17,098)	(17,226)
Unsponsored	(4,513)	(3,737)
Total financial aid	(21,611)	(20,963)
Net student revenues	$ 66,097	$ 63,819

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

NOTE 16 - INSTITUTIONAL SUPPORT FUNDRAISING EXPENSE:

Included in Institutional Support expenses are $4,593 and $5,437 of expenditures related to fundraising for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 totaled $6,097 and $5,907, 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, 2017 and 2016 totaled $21,063 and $22,270, respectively.

The College receives contributions and promises to give from members of the Board of Trustees. For the years ended June 30, 2017 and 2016, the College received $10,210 and $16,029, respectively, of total private gifts and grants from members of the Board of Trustees. At June 30, 2017 and 2016, contributions receivable from members of the Board of Trustees totaled $105,272 and $117,902, respectively.

June 30, 2017 and 2016
(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.

Subsequent events have been evaluated through October 25, 2017, which corresponds to the date when the financial statements are available for issuance.

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