CLAREMONT
McKENNA
— COLLEGE —

# 2011–2012 Financial Report

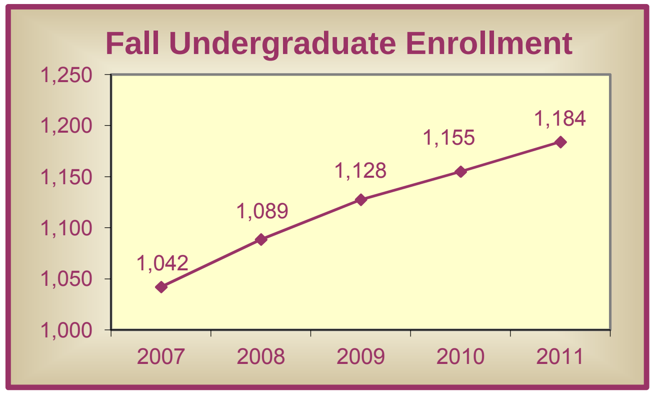
# CLAREMONT MCKENNA COLLEGE
# ANNUAL FINANCIAL REPORT

2012 and 2011

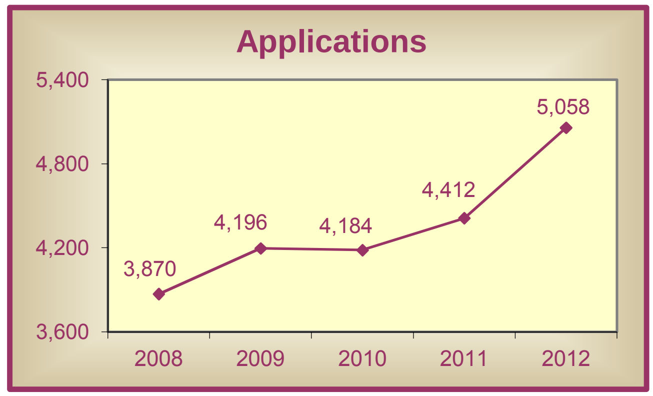
## CONTENTS

## Financial Highlights

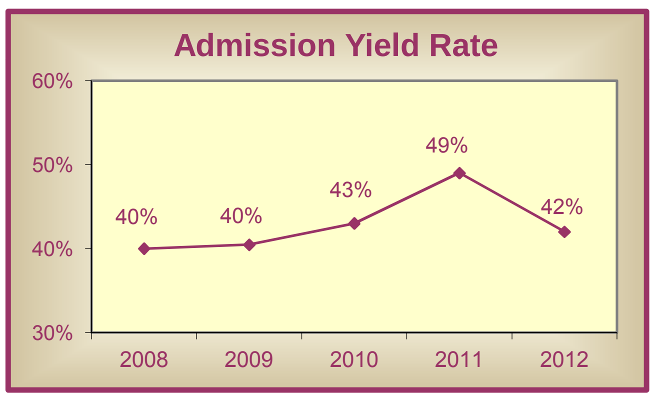
- Fall 2011 FTE undergraduate enrollment in Claremont reflects a planned increase from the prior year. The average FTE undergraduate enrollment for the year (Fall and Spring) was 1,195. FTE undergraduate enrollment for the 2011-12 fiscal year, including the Washington program and study-abroad programs, was 1,274.5.



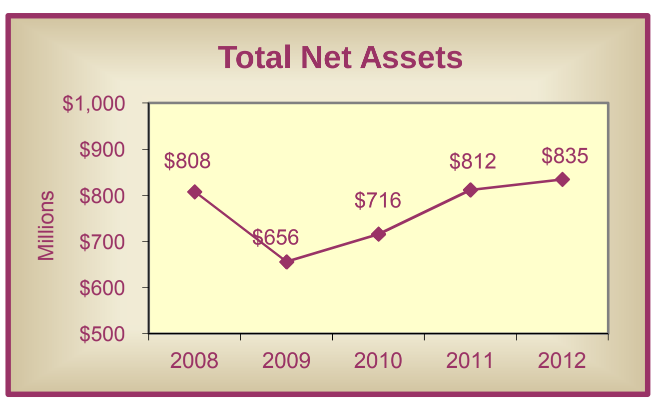

- Freshman applications for admission in the Fall of 2012 were 5,058, a marked increase over prior years. Applications for the last five years have averaged 4,344—fifteen times more applications than openings in the entering class.




- The yield rate decreased to 42% for the Fall of 2012. The total number of new freshmen entering the College in Fall of 2012 was 291 students.

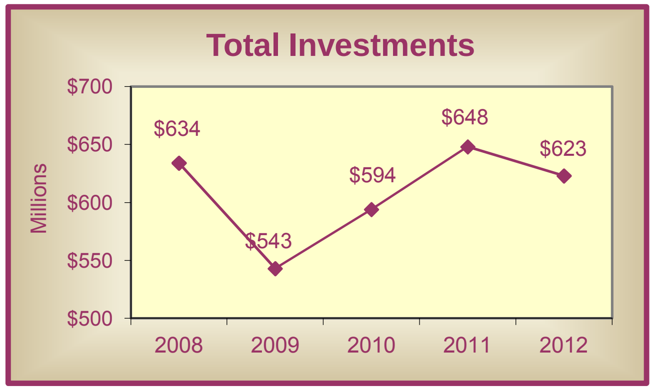



- Total net assets increased by 2.8% to $835 million due primarily to new gifts.

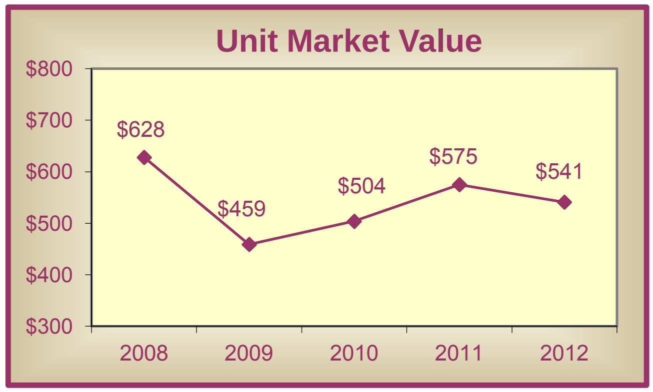


# Financial Highlights

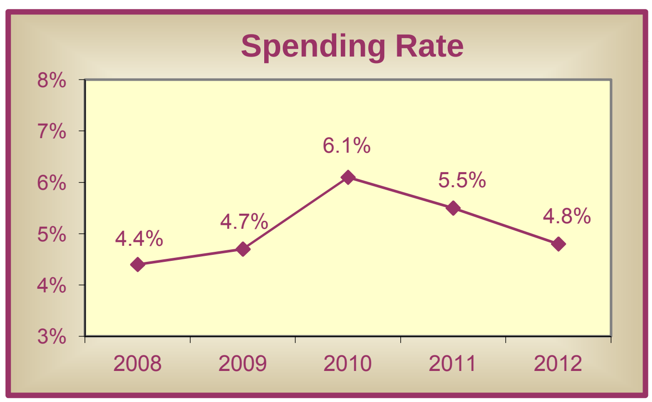
- Total investments decreased by 3.9% in 2012. The decrease was primarily attributable to spending for operations.



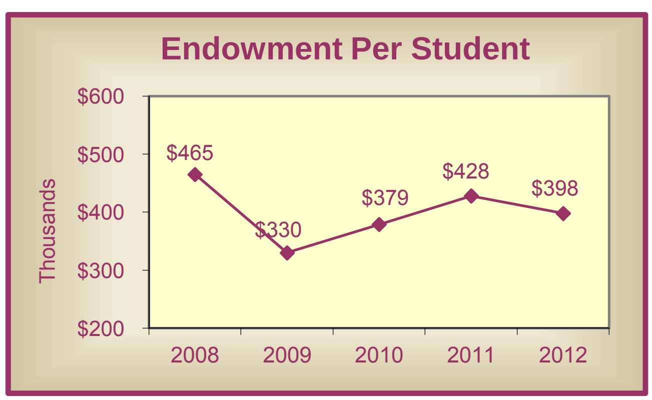

- The unit market value decreased by 5.9%. Unit market value reflects general market performance after spending for operations.




- The spending rate (spending amount per unit divided by unit market value at the beginning of the year) dropped as a result of the increase in unit market value at the end of fiscal year 2011.

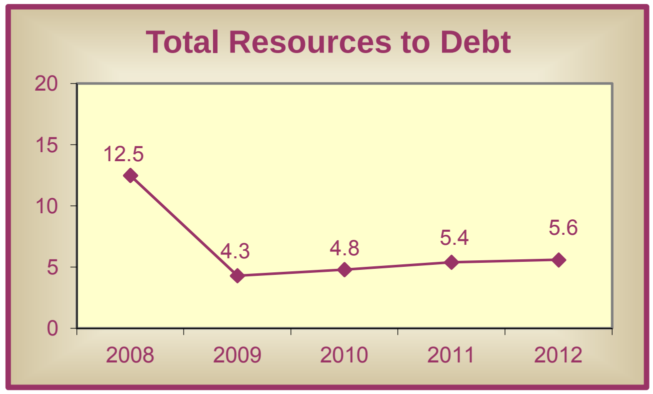



- Endowment per student decreased as a result of the decrease in the market value of the endowment as of June 30, 2012, and the increase in FTE enrollment in Fall 2011. Total endowment at June 30, 2012, was $521 million.

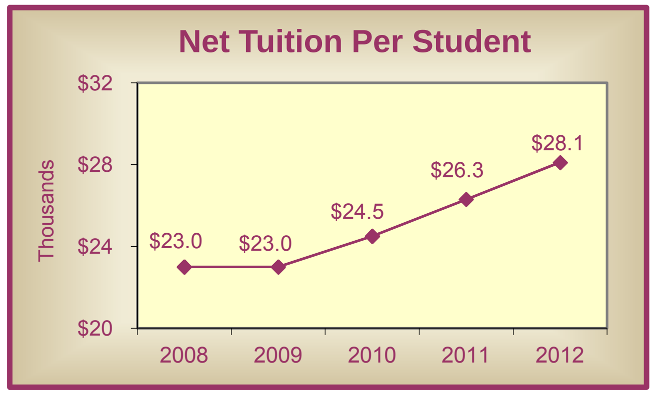


## Financial Highlights

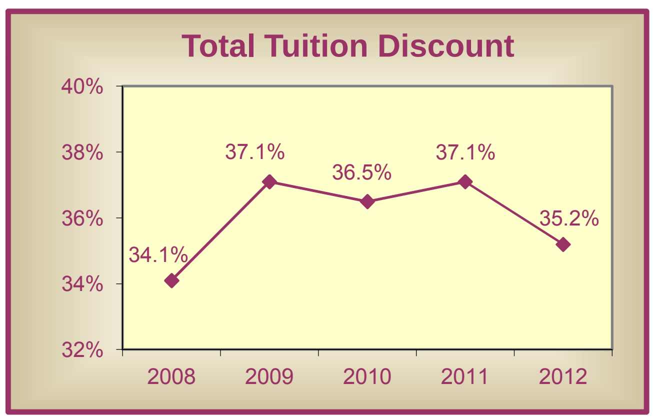
- Total resources to debt decreased in 2009 as a result of new bonds issued by the College and increased in 2010, 2011, and 2012 due to an increase in net assets. CMC's ratio of 5.6 is lower than the 2011 median value of 6.6 for Moody's Aa small institutions (enrollments typically under 3,000 FTE).



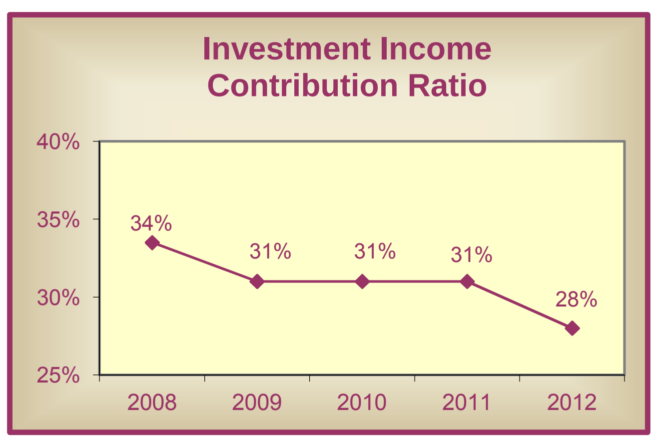

- CMC experienced growth in net tuition per student at a rate slightly higher than the rate of increase in gross tuition, which was a direct result of a decrease in the tuition discount. This dollar level places CMC higher than the 2011 median net tuition per student of $23,940 for Moody's Aa small institutions.




- The total tuition discount (financial aid divided by tuition and fees revenues) decreased as part of a planned multi-year reduction. CMC's discount is lower than the 2011 median discount of 38.4% for Moody's Aa small institutions.

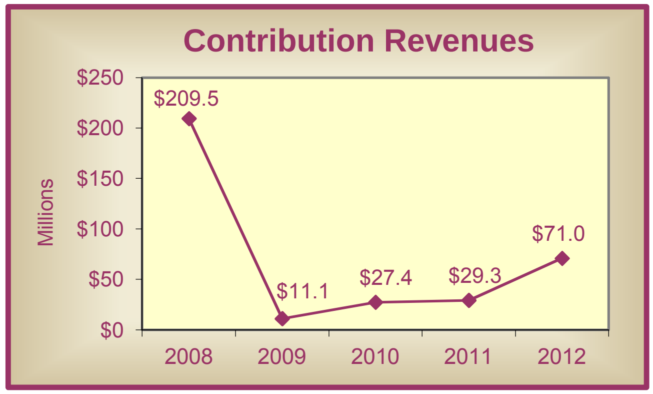



- CMC's endowment and a prudent spending policy produce sufficient investment income to make a significant contribution toward covering the operational costs of a CMC education. The investment income contribution ratio decreased in 2012 as a result of higher operating expenses from the prior year.

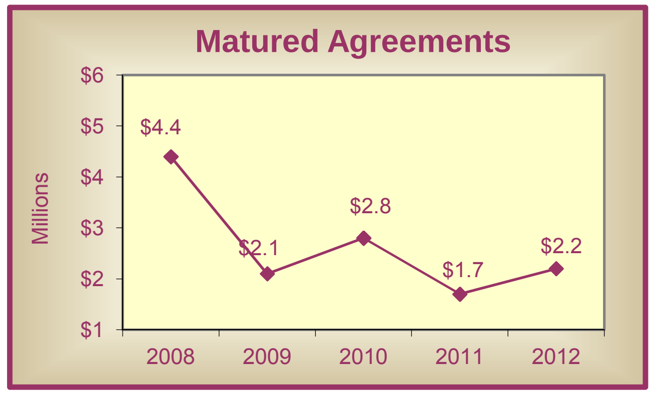


## Financial Highlights

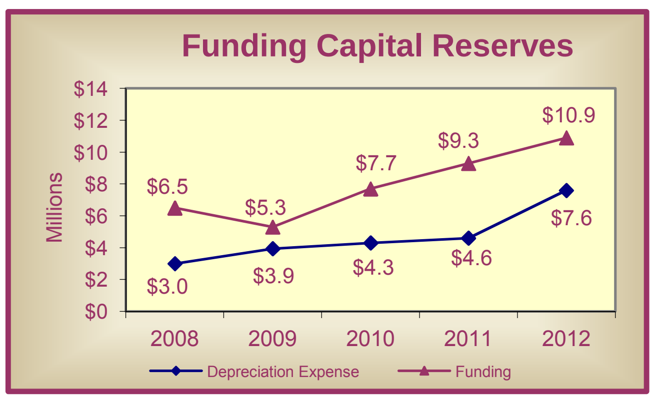
- Private gifts and grants reported by the Development Office were $29.6 million for the 2012 fiscal year. After actuarially adjusting the deferred gifts and adding in unconditional promises to give, contribution revenues finished the fiscal year at $71 million.



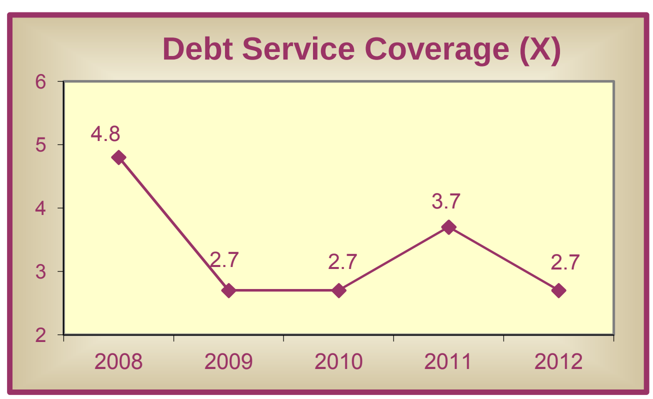

- Although unpredictable from year to year, matured annuity and life income agreements continue to provide significant resources to the College's endowment and operating funds.




- CMC continues its policy of fully funding depreciation expense. Annual set-asides into capital reserves for the renewal and replacement of facilities are budgeted to exceed the amount of depreciation expense recorded in the financial statements.




- Debt service coverage (net operating revenues plus interest and depreciation expense divided by annual debt service) decreased in 2009 as a direct result of new debt issued by the College. The ratio decreased slightly in 2012 due to expensing interest that was previously capitalized during construction. CMC's ratio is lower than the 2011 median value of 3.34 for Moody's Aa small institutions.



Office of the Treasurer

October 12, 2012

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

Ladies and Gentlemen:

The fiscal year ending on June 30, 2012, will be a memorable one at CMC for a long time to come, though the financial statements may not adequately reflect the changes that have occurred on campus. The most notable change is the physical transformation at the west end of the campus because of the Kravis Center, which opened for the Fall 2011 semester. Designed by Rafael Viñoly Architects, the Kravis Center makes a significant architectural statement and is referred to as CMC's Gateway to Leadership on the College's western edge. The Kravis Center has already transformed our students' experience through their use of the indoor/outdoor courtyard, the terraces, and the Living Room, which allow them to meet and socialize in these new settings.

Another milestone was the approval of the Campus Master Plan by the City of Claremont, which took place in July 2012 after four years of planning efforts. The Master Plan will provide the College and the surrounding communities with a flexible vision for the future of CMC's campus while assuring the preservation of treasured academic and civic assets. The College also began preparations for a change in leadership when President Pamela Gann announced that she will be stepping down from her current position in June 2013, after 14 years of service as CMC's president. This transition coincides with the completion of the current capital campaign. Although these changes do not significantly alter CMC's financial outlook, they will have an impact on the operations of the College as we move forward into the future.

Because the investment portfolio is the largest asset of the College, management continues to closely monitor the global economic environment and its effects on financial markets. The return on CMC's endowment for the year was -0.7%, net of fees. CMC's one-year return is tracking slightly above the reported median value in the Cambridge Associates database of preliminary returns for college and university investment pools and is in the top quartile of the same database over the trailing three-, five-, and ten-year periods. Investment returns for the new fiscal year beginning in July 2012 have started off on a more positive note than the prior year, but only further confirm the continued volatility in the global markets. In response to the changing economic conditions and expectations of future earnings, the Board of Trustees adopted changes to the College's spending policy in October 2012, to more conservatively smooth the effects of short-term investment results on the operating budget, and to reduce the spending rate in future years without immediate drastic reductions in operations. These changes will begin to be implemented with the preparation of the 2013-14 operating budget.

The newly-admitted class of freshmen for Fall 2012 adds another impressive group of students to the CMC student body. The number of applicants for the class of 2016, recruited during the



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Member of The Claremont Colleges

2011-12 fiscal year, was 15% higher than the prior record for the College set in 2010-11. Of the 5,058 applications received, 13.6% were accepted (admission rate), and 42% were enrolled (yield rate), highlighting CMC's competitive position as one of the most selective liberal arts colleges in the country. The median SAT score was 1420, excluding the writing section. The newly-admitted freshmen represent 32 states and 18 foreign countries. The average FTE undergraduate enrollment in Claremont for the 2011-12 fiscal year was 1,195 students, which exceeded the budgeted target of 1,160 students, and all available spaces on campus were used to house students during the spring semester. Net tuition per student continued to increase with a corresponding decrease in the total tuition discount. The College continues to maintain its need-blind admission policy and meet-all-need financial aid policy, and confirmed the continuation of its policy (adopted in 2007-08 and implemented in 2008-09) to provide need-based financial aid packages with no student loans through the 2012-13 recruitment process. The current Campaign for Claremont McKenna College has provided several new gifts for both need-based and merit scholarships, which are reflected in the calculation for the total tuition discount.

**Statements of Financial Position**

The total assets, total liabilities, and total net assets in the statements of financial position did not change significantly from the prior year. The most significant changes in individual line items were within the asset categories for net contributions receivable, with an increase of 25.8% over the prior year balance, and investments, with an off-setting decrease of 4% from the prior year values. With a fairly even return on investment performance for the year, the decline in investment values was primarily driven by distributions for spending on operations, which were approved by the Board as part of the budget process. The College received a new unrestricted pledge at the end of June that will be publicly announced later this year. This is a significant gift for the College, and has allowed planning to progress, both physical and financial, for a new Fitness and Athletic Center. With the completion of the Kravis Center, the highest priority noted in the Master Plan is the replacement of Ducey Gym with a new Fitness and Athletic Center to accommodate the needs of the current student body for fitness and recreational uses, as well as for varsity competition. This facility will be designed to hold up to 2,000 people by using the arena floor for College-hosted major events, and is the highest fundraising priority as we enter the final stages of the current capital campaign.

Plant facilities, net of depreciation, also increased from 2011 to 2012. Construction of the Kravis Center was completed over the summer of 2011, and the new facility was placed into service at the beginning of the 2011-12 academic year. The Kravis Center is home to four academic departments, five research institutes, and the admission and financial aid offices, and provides more than 40% of the total classroom space on campus and other highly-desired meeting and conference spaces. In addition to the opening of the Kravis Center, the College undertook a major renovation of the first floor of the Marian Miner Cook Athenaeum, which was unveiled to an appreciative campus community at the start of the Fall 2011 semester. The Athenaeum serves as an informal meeting place for students as well as the official site of more formal gatherings for distinguished speakers who join students and faculty for dinner or lunch prior to their featured lectures.

The physical transformation of the west end of campus continued during the summer of 2012 with a major demolition and reconstruction of the north mall connecting the Kravis Center to the Athenaeum and Heggblade Center. In addition to providing a more beautiful and interesting walkway, the improvements include a new fountain in the center of the mall used by students for social events, and spaces for outdoor classrooms that can be used by faculty and students year-round in the Southern California climate. Minor renovations of the Hub and McKenna Auditorium were undertaken to complement new patio space adjacent to the north mall, which provides a relaxing destination overlooking the fountain and the reflecting pool at the Kravis Center. The reflecting pool, which surrounds the glass Living Room, was completed in September 2012, and has become a main attraction for students, faculty, staff and visitors. Parents Field received a complete make-over with new laser-leveled turf and improved landscaping at the edges. Other landscape improvements were made throughout the campus, including the addition of lights in the signature oak trees to provide more efficient and effective uses of outdoor spaces for both daytime and evening activities.

**Statement of Activities**

The statement of activities provides greater detail of the changes in net assets during the fiscal year. Net assets increased 2.8% from the prior year, driven by a combination of increases in private gifts and net student revenues, and offsetting increases in expenses and endowment spending allocations for operations. Total revenues increased 42.9% from the prior year. A new multi-year pledge was received late in the fiscal year, driving the increase in private gifts. The increase in the number of full-time equivalent undergraduate students from 1,243 in 2010-11 to 1,274.5 in 2011-12, combined with increases in tuition, room and board charges, was the primary reason for the increase in net student revenues. Student financial aid, also referred to as the tuition discount, decreased from 2011 to 2012 when calculated as a percentage of student charges.

The Campaign for Claremont McKenna College, which was formally launched in 2008 with a $600 million goal, reached $587.5 million at the end of the fiscal year. The campaign is expected to be successfully completed by June 30, 2013, and is expected to surpass the initial goal. The amount raised through June 30, 2012 represents the largest amount raised in a campaign to date compared to all other liberal arts colleges.

Total operating expenses increased by 13.6% from the prior year. Over half of this increase was a result of the capital improvements on campus in the form of interest expense, depreciation expense, and other building maintenance and utility expenses, which are allocated to the various functional expense categories in the statement of activities. These expenses are all associated with placing the Kravis Center in service and capitalizing the related assets during the fiscal year.

Employee costs increased 5.9%, and represented increases for normal salary adjustments, costs of fringe benefits, and new positions, some of which were funded from new endowed chairs through the Roberts Faculty Development Challenge. Fundraising for this generous matching gift program was completed during the year, and over $60 million was raised to fund 26 new faculty chaired professorship endowments, including nine new endowed chairs.

The College launched a new Center for Civic Engagement, funded from an outside grant, and expanded its summer session program. The Robert Day Master's program in finance, which opened in fiscal year 2008-09 and is funded through a large gift, continued to grow. The College also implemented planning for a new off-campus program in the Silicon Valley. Similar to the off-campus program in Washington D.C., students from all of the Claremont Colleges are invited to participate in classes and internships for a semester. The program will be launched in the fall of 2012.

Spending policy distributions and negative investment returns represented the largest decreases in other changes in net assets. The spending per unit in the pooled investments fund was held flat for the third year in a row by action of the Board of Trustees as part of the fiscal response to the investment market downturn in 2008, and to smooth the volatility in the formula spending allocations from the endowment over multiple years.

The College continues to designate annually an amount of unrestricted net assets equal to or greater than the calculated amount of depreciation expense to fund reserves for future campus renovations and replacements. While the amount of depreciation expense increased by $3.0 million for the year, the College was still able to add $3.3 million to the designated reserves in addition to the amount of depreciation expense of $7.6 million, for a total transfer of $10.9 million to the capital project reserves.

**Statements of Cash Flows**

Net cash flows decreased $180,000 for fiscal year 2012. The net cash used in operating activities of $13.7 million was offset by the net cash provided by investing activities of $7.9 million and by financing activities of almost $5.7 million. 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.

**Summary**

A significant increase in revenue from private gifts was an exciting financial highlight for the 2012 fiscal year. The investment returns for the fiscal year were fairly neutral, confirming the need to continue with conservative planning and budgeting efforts for the near future. Increases to net student charges will continue to be kept as low as possible as students and families struggle in this challenging economy. Operating expenses will be carefully monitored as alternative sources of revenue continue to be explored.

Enrollment and applications remain strong, and recent investments in the physical campus are now providing eagerly anticipated new spaces benefitting the entire campus community. With the recent completion of the Campus Master Plan, we are well positioned to plan for a desperately-needed replacement for Ducey Gym. The College's trustees and administration are committed to providing a high-quality educational experience unique to CMC. Careful planning for continued improvement in all aspects of the CMC experience will provide the excellence and success our current and future students expect to receive. President Gann should be proud to look back at the accomplishments the College has made under her tenure, while also leaving CMC in a strong financial position for her successor.

Respectfully submitted,

Robin J. Aspinall

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

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

**REPORT OF INDEPENDENT AUDITORS**

The Board of Trustees
Claremont McKenna College
Claremont, California

We have audited the accompanying statements of financial position of Claremont McKenna College (the "College") as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the results of its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Los Angeles, California
October 24, 2012

## CLAREMONT MCKENNA COLLEGE
## STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011
(in thousands)

| | 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 407 | $ 587 |
| Accounts and notes receivable, net (Note 2) | 17,050 | 17,070 |
| Prepaid expenses and deposits | 4,641 | 4,564 |
| Contributions receivable, net (Note 3) | 208,529 | 165,748 |
| Beneficial interest in trusts (Note 3) | 5,752 | 5,251 |
| Investments (Note 4) | 622,632 | 648,323 |
| Plant facilities, net (Note 6) | 178,484 | 174,986 |
| **Total assets** | $ 1,037,495 | $ 1,016,529 |
| **LIABILITIES AND NET ASSETS** | | |
| **Liabilities:** | | |
| Accounts payable and accrued liabilities | $ 11,688 | $ 14,494 |
| Funds held in trust for others | 2,796 | 2,809 |
| Deposits and deferred revenues | 1,041 | 1,215 |
| Staff retirement liability | 2,128 | 1,412 |
| Life income and annuities payable (Note 9) | 42,316 | 41,420 |
| Capital lease obligation (Note 7) | 1,228 | 941 |
| Bonds payable (Note 10) | 137,567 | 138,412 |
| Government advances for student loans | 3,217 | 3,207 |
| Asset retirement obligation (Note 8) | 816 | 785 |
| **Total liabilities** | 202,797 | 204,695 |
| **Net Assets (Note 13):** | | |
| Unrestricted | 175,679 | 179,141 |
| Temporarily restricted | 382,214 | 366,117 |
| Permanently restricted | 276,805 | 266,576 |
| **Total net assets** | 834,698 | 811,834 |
| **Total liabilities and net assets** | $ 1,037,495 | $ 1,016,529 |

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

# CLAREMONT MCKENNA COLLEGE
# STATEMENT OF ACTIVITIES

For the year ended June 30, 2012
(in thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Student revenues | $ 71,107 | $ - | $ - | $ 71,107 |
| Less: Financial aid | (19,823) | - | - | (19,823) |
| Net student revenues (Note 15) | 51,284 | - | - | 51,284 |
| Private gifts and grants | 3,768 | 59,859 | 7,337 | 70,964 |
| Federal grants | 1,047 | - | - | 1,047 |
| Private contracts | 875 | - | - | 875 |
| Spending policy income | 7,434 | 18,697 | 350 | 26,481 |
| Other investment income | 1,490 | - | 83 | 1,573 |
| Other revenues | 2,351 | - | - | 2,351 |
| Release of net assets | | | | |
| Restricted gifts | 14,688 | (14,688) | - | - |
| Restricted spending policy income | 17,475 | (17,475) | - | - |
| Annuity and life income | 777 | (777) | - | - |
| **Total revenues** | 101,189 | 45,616 | 7,770 | 154,575 |
| **Expenses:** | | | | |
| Instruction | 32,461 | - | - | 32,461 |
| Research | 6,585 | - | - | 6,585 |
| Academic support | 9,722 | - | - | 9,722 |
| Student services | 14,146 | - | - | 14,146 |
| Institutional support | 15,457 | - | - | 15,457 |
| Auxiliary enterprises | 15,695 | - | - | 15,695 |
| **Total expenses** | 94,066 | - | - | 94,066 |
| **Excess of revenues over expenses** | 7,123 | 45,616 | 7,770 | 60,509 |
| **Other changes in net assets:** | | | | |
| Realized and unrealized gains (losses), net of spending allocation | (12,973) | (20,409) | (296) | (33,678) |
| Release of net assets | | | | |
| Plant facilities | 3,291 | (3,291) | - | - |
| Actuarial adjustment | - | (2,023) | (976) | (2,999) |
| Staff retirement plan comprehensive gain | (968) | - | - | (968) |
| Donor redesignations between net asset categories | 65 | (3,796) | 3,731 | - |
| **Change in net assets** | (3,462) | 16,097 | 10,229 | 22,864 |
| Net assets at beginning of year | 179,141 | 366,117 | 266,576 | 811,834 |
| Net assets at end of year | $ 175,679 | $ 382,214 | $ 276,805 | $ 834,698 |

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

# CLAREMONT MCKENNA COLLEGE
# STATEMENT OF ACTIVITIES

For the year ended June 30, 2011
(in thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Student revenues | $ 65,714 | $ - | $ - | $ 65,714 |
| Less: Financial aid | (19,351) | - | - | (19,351) |
| Net student revenues | 46,363 | - | - | 46,363 |
| Private gifts and grants | 3,966 | 17,663 | 7,661 | 29,290 |
| Federal grants | 1,477 | - | - | 1,477 |
| Private contracts | 667 | - | - | 667 |
| Spending policy income | 7,294 | 18,362 | 391 | 26,047 |
| Other investment income | 2,081 | 2 | 8 | 2,091 |
| Other revenues | 2,252 | - | - | 2,252 |
| Release of net assets | | | | |
| Restricted gifts | 12,419 | (12,419) | - | - |
| Restricted spending policy income | 16,234 | (16,234) | - | - |
| Annuity and life income | 617 | (617) | - | - |
| **Total revenues** | 93,370 | 6,757 | 8,060 | 108,187 |
| **Expenses:** | | | | |
| Instruction | 28,992 | - | - | 28,992 |
| Research | 5,504 | - | - | 5,504 |
| Academic support | 7,299 | - | - | 7,299 |
| Student services | 12,567 | - | - | 12,567 |
| Institutional support | 13,937 | - | - | 13,937 |
| Auxiliary enterprises | 14,487 | - | - | 14,487 |
| **Total expenses** | 82,786 | - | - | 82,786 |
| **Excess of revenues over expenses** | 10,584 | 6,757 | 8,060 | 25,401 |
| **Other changes in net assets:** | | | | |
| Realized and unrealized gains (losses), net of spending allocation | 28,610 | 35,775 | (155) | 64,230 |
| Release of net assets | | | | |
| Plant facilities | 244 | (244) | - | - |
| Actuarial adjustment | - | 2,994 | 2,548 | 5,542 |
| Staff retirement plan comprehensive loss | 729 | - | - | 729 |
| Donor redesignations between asset categories (including UPMIFA) | 171 | (284) | 113 | - |
| **Change in net assets** | 40,338 | 44,998 | 10,566 | 95,902 |
| Net assets at beginning of year | 138,803 | 321,119 | 256,010 | 715,932 |
| Net assets at end of year | $ 179,141 | $ 366,117 | $ 266,576 | $ 811,834 |

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

# CLAREMONT MCKENNA COLLEGE
# STATEMENTS OF CASH FLOWS

For the years ended June 30, 2012 and June 30, 2011
(in thousands)

| | 2012 | 2011 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ 22,864 | $ 95,902 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation expense | 7,563 | 4,649 |
| Amortization and accretion expense | 19 | 40 |
| Loss on disposal of plant facilities | 1,498 | 460 |
| Allowance for doubtful student loan accounts | 32 | 26 |
| Comprehensive (gain)/loss on staff retirement plan | 968 | (729) |
| Discount on life income contract gifts | (2,878) | (1,354) |
| Realized and unrealized (gain)/loss on investments | 7,600 | (97,191) |
| Loss on debt defeasance | 232 | - |
| Non-cash gifts | (1,700) | (2,581) |
| Adjustment of actuarial liability for annuities payable | 7,044 | 3,674 |
| Decrease/(increase) in accounts and contributions receivable | (43,164) | (1,968) |
| Decrease/(increase) in beneficial interest in trusts | (501) | (488) |
| Decrease/(increase) in prepaid expenses and deposits | (77) | (612) |
| (Decrease)/increase in accounts payable and accrued liabilities | (2,767) | (905) |
| (Decrease)/increase in funds held in trust for others | (13) | 449 |
| (Decrease)/increase in deposits and deferred revenues | (174) | (106) |
| Contributions restricted for long-term investments | (10,049) | (10,630) |
| Defined benefit plan contributions over expense | (252) | 131 |
| **Net cash (used in)/provided by operating activities** | (13,755) | (11,233) |
| **Cash flows from investing activities:** | | |
| Purchase of plant facilities | (12,064) | (42,109) |
| Purchases of investments | (424,237) | (546,646) |
| Proceeds from sales of investments | 443,872 | 591,463 |
| Loans made to students and employees | (1,846) | (1,996) |
| Collection of student and employee loans | 2,177 | 2,010 |
| **Net cash (used in)/provided by investing activities** | 7,902 | 2,722 |
| **Cash flows from financing activities:** | | |
| Payments to annuity and life income beneficiaries | (5,224) | (2,406) |
| Investment income for annuity and life income investments | 2,110 | 1,265 |
| Principal payments for borrowings | (1,272) | (1,020) |
| Contributions restricted for life income contracts | 3,513 | 1,623 |
| Contributions restricted for endowment | 6,273 | 8,300 |
| Contributions restricted for plant expenditures and student loans | 263 | 707 |
| Increase/(decrease) in government advances for student loans | 10 | (1) |
| **Net cash (used in)/provided by financing activities** | 5,673 | 8,468 |
| **Net (decrease)/increase in cash** | (180) | (43) |
| Cash at beginning of year | 587 | 630 |
| Cash at end of year | $ 407 | $ 587 |
| Supplemental disclosure of cash flows: | | |
| Interest paid | $ 6,696 | $ 6,899 |
| Supplemental disclosure of noncash financing activity: | | |
| Capital lease obligation | $ 494 | $ 941 |

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

June 30, 2012 and 2011

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

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

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

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

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

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

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

Contributions, including unconditional promises to give, are recognized as revenue in the period pledged or received and are reported as increases in the appropriate category of net assets. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received are discounted at an appropriate discount rate.

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

Collectability of student accounts, notes receivable, and contributions receivable is reviewed both individually and in the aggregate. Allowances have been established based on experience, and balances deemed uncollectible are written off through a charge to bad debt expense or the provision for doubtful accounts and a credit to accounts receivable. The College follows federal guidelines for determining when student loans are delinquent or past due for both federal and institutional loans.

**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 designations.

**Allocation of Certain Expenses:**
Expenses are generally reported as decreases in unrestricted net assets. The Statements of Activities present expenses by functional classification. Depreciation and the cost of operation and maintenance of plant facilities are allocated to functional categories based on building square footage dedicated to that specific function. Interest expense is allocated based on the use of the related borrowings.

**Cash:**
For the purposes of reporting cash flows, cash includes demand deposit bank accounts. Resources invested in money market funds are classified as cash equivalents, except that any such investments managed as part of the investment pool are classified as investments.

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

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

**Investments:**
Where permitted by law, the College pools investments for management purposes. The remainder of investments are managed as separate investments. Marketable securities are reported at fair market value. Non-marketable investments are carried at estimated fair value provided by the management of the non-marketable investment partnerships or funds at June 30, 2012 and 2011. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the investments. Because non-marketable investments are not readily marketable, the estimated value is subject to uncertainty and such differences could be material.

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

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

The cost of securities sold is determined by the average cost method and is used to compute realized gains and losses. Unrealized gains and losses reflect the changes in the 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-range 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. The amount of investment return available for current operations is determined by applying an increase of 4.0% to the prior year unit spending rate, provided that the resulting calculation falls within a collar of 4.5% to 5.5% of a twelve quarter average unit market value. 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, 2012 and 2011, these cumulative gains totaled approximately $74,942,000 and $83,698,000, respectively. The Board of Trustees may, at its discretion, approve additional spending for special projects.

**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 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, 2012 and 2011

**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 will be 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 funds its annual depreciation charge by transferring an amount equal to or greater than its annual depreciation charge from its operating fund into its unrestricted capital project reserves. 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, 2012 and 2011. Proceeds from the disposal of equipment acquired with federal funds will be 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 1.4% to 7.6% and over estimated lives according to the 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, 2012 and 2011.

**Use Of Estimates**:

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

June 30, 2012 and 2011

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

**Fair Value of Financial Instruments:**

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

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

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

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

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

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

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

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

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

June 30, 2012 and 2011
(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 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.

**NOTE 2 - ACCOUNTS AND NOTES RECEIVABLE:**

Accounts and notes receivable at June 30, 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|---|---|
| Student notes receivable | $ 11,804 | $ 12,082 |
| Federal loan funds | 2,411 | 2,661 |
| Other Claremont Colleges | 604 | 246 |
| Student accounts receivable | 883 | 765 |
| Grants and contracts receivable | 261 | 130 |
| Housing assistance notes receivable | 838 | 641 |
| Other | 705 | 920 |
| | 17,506 | 17,445 |
| Less allowance for doubtful accounts receivable | (456) | (375) |
| Net accounts and notes receivable | $ 17,050 | $ 17,070 |

**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, 2012 and 2011 are expected to be realized as follows:

| | 2012 | 2011 |
|---|---|---|
| Within one year | $ 20,604 | $ 10,869 |
| Between one year and five years | 71,633 | 52,429 |
| More than five years | 200,560 | 186,930 |
| | 292,797 | 250,228 |
| Less discount | (83,370) | (84,416) |
| Less allowance for doubtful contributions receivable | (898) | (64) |
| Net contributions receivable | $ 208,529 | $ 165,748 |

June 30, 2012 and 2011
(in thousands)

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

Contributions receivable at June 30, 2012 and 2011 are intended for the following uses:

| | 2012 | 2011 |
|---|---|---|
| Endowment | $ 111,887 | $ 107,964 |
| Plant | 5,240 | 5,973 |
| Other | 91,402 | 51,811 |
| Net contributions receivable | $ 208,529 | $ 165,748 |

At June 30, 2012 and 2011, the College had knowledge of conditional promises to give in the amount of $4,059 and $5,718, respectively. The purpose of the promises is to create endowed chairs for new and existing faculty positions. The promises will be recognized as revenue when the conditions are met.

At June 30, 2012 and 2011, the College held beneficial interest in outside trusts of $5,752 and $5,251, 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, 2012, 93.9% of contributions receivable were due from three donors. At June 30, 2011, 90.8% of contributions receivable were due from two donors.

**NOTE 4 - INVESTMENTS:**

Where permitted by gift agreement and/or applicable government regulations, investments are pooled. Pooled investments and allocation of pooled investment income are accounted for on a unit value method. The following is a summary of data that pertains to this method at June 30, 2012 and 2011:

| | Pooled Investments Fund | |
|---|---|---|
| | 2012 | 2011 |
| **Unit market value at end of year** | $ 541.38 | $ 575.02 |
| **Units owned:** | | |
| Unrestricted: | | |
| Funds functioning as endowment | 224,574 | 217,430 |
| Temporarily restricted: | | |
| Annuity and life income contracts and agreements | 19,976 | 18,708 |
| Endowment | 69,314 | 81,750 |
| Total temporarily restricted | 89,290 | 100,458 |
| Permanently restricted: | | |
| Endowment | 666,276 | 644,564 |
| College loan investments | 2,511 | 2,693 |
| Annuity and life income contracts and agreements | 44,516 | 45,193 |
| Total permanently restricted | 713,304 | 692,450 |
| Total units | 1,027,168 | 1,010,338 |

June 30, 2012 and 2011
(in thousands)

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

Investment income related to College investments for the years ended June 30, 2012 and 2011, net of management and custody fees of $3,825 and $3,880, respectively, is as follows:

| Amounts allocated in accordance with spending policy for pooled investments: | 2012 | 2011 |
|---|---|---|
| Net pooled investment income | $ 1,731 | $ 5,169 |
| Pooled investment gains appropriated | 26,539 | 22,718 |
| Total spending policy income and gains | 28,270 | 27,887 |
| Other investment income | 1,573 | 2,091 |
| Less amounts allocated to annuity and life income contracts and agreements | (1,789) | (1,840) |
| Total investment income | $ 28,054 | $ 28,138 |
| Realized and unrealized gains/(losses), net of spending allocation | (33,678) | 64,230 |
| Total investment returns | $ (5,624) | $ 92,368 |

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, 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| Cash equivalents | $ 14,753 | $ 33,213 |
| Domestic equities | 161,169 | 169,913 |
| International equities | 122,068 | 136,605 |
| Domestic treasuries | 26,846 | 16,740 |
| Global fixed income | 44,979 | 47,102 |
| High yield and bank loans | 31,950 | 30,426 |
| Assets whose use is limited (Note 11) | 3,371 | 4,547 |
| Private investments: | | |
| Long/short equity | 23,592 | 27,353 |
| Absolute return funds | 79,525 | 74,377 |
| Private equity and venture capital | 71,141 | 74,380 |
| Real estate, energy, and timber | 43,238 | 33,667 |
| Total investments | $ 622,632 | $ 648,323 |

| By category: | 2012 | 2011 |
|---|---|---|
| Endowment and funds functioning as endowment: | | |
| Pooled investments | $ 519,814 | $ 542,670 |
| Separately invested | 769 | 566 |
| Total endowment and funds functioning as endowment | 520,583 | 543,236 |
| Annuity and life income contracts: | | |
| Pooled investments | $ 34,915 | $ 36,745 |
| Separately invested | 15,003 | 16,307 |
| Total annuity and life income contracts and agreements | 49,918 | 53,052 |
| Other: | | |
| Pooled | $ 1,360 | $ 1,549 |
| Separately invested | 50,771 | 50,486 |
| Total other | 52,131 | 52,035 |
| Total by category | $ 622,632 | $ 648,323 |

June 30, 2012 and 2011
(in thousands)

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

The following table presents the investments and beneficial interest in trusts carried on the Statement of Financial Position by level within the valuation hierarchy at June 30, 2012 and 2011:

| | Level 1 | Level 2 | Level 3 | 2012 |
|---|---|---|---|---|
| Cash equivalents | $ 14,722 | $ 31 | $ - | $ 14,753 |
| Domestic equities | 94,623 | 66,546 | - | 161,169 |
| International equities | 33,309 | 88,759 | - | 122,068 |
| Domestic treasuries | - | 26,846 | - | 26,846 |
| Global fixed income | 27,389 | 17,590 | - | 44,979 |
| High yield and bank loans | - | 31,950 | - | 31,950 |
| Assets whose use is limited | 3,371 | - | - | 3,371 |
| Private investments: | | | | |
| Long/short equity | - | 5,440 | 18,152 | 23,592 |
| Absolute return | - | 3,854 | 75,671 | 79,525 |
| Private equity and venture capital | - | - | 71,141 | 71,141 |
| Real estate, energy, and timber | - | - | 43,238 | 43,238 |
| Beneficial interest in trusts | - | - | 5,752 | 5,752 |
| Total | $ 173,414 | $ 241,016 | $ 213,954 | $ 628,384 |

| | Level 1 | Level 2 | Level 3 | 2011 |
|---|---|---|---|---|
| Cash equivalents | $ 33,213 | $ - | $ - | $ 33,213 |
| Domestic equities | 85,690 | 84,223 | - | 169,913 |
| International equities | 30,736 | 105,869 | - | 136,605 |
| Domestic treasuries | - | 16,740 | - | 16,740 |
| Global fixed income | 35,130 | 11,972 | - | 47,102 |
| High yield and bank loans | - | 30,426 | - | 30,426 |
| Assets whose use is limited | 4,547 | - | - | 4,547 |
| Private investments: | | | | |
| Long/short equity | - | 11,586 | 15,767 | 27,353 |
| Absolute return | - | 4,981 | 69,396 | 74,377 |
| Private equity and venture capital | - | - | 74,380 | 74,380 |
| Real estate, energy, and timber | - | - | 33,667 | 33,667 |
| Beneficial interest in trusts | - | - | 5,251 | 5,251 |
| Total | $ 189,316 | $ 265,797 | $ 198,461 | $ 653,574 |

June 30, 2012 and 2011
(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, 2012 and 2011:

| | Long/short equity | Absolute return | Private equity & Venture capital | Real estate, energy, and timber | Beneficial Interest in Trusts | Total |
|---|---|---|---|---|---|---|
| Balance at July 1, 2010 | $ 15,965 | $ 57,110 | $ 68,394 | $ 24,788 | $ 4,763 | $ 171,020 |
| Purchases | 6,249 | 12,552 | 13,673 | 8,204 | - | 40,678 |
| Sales | (8,814) | (7,302) | (24,730) | (3,800) | - | (44,646) |
| Realized gain/(loss), net | 314 | (170) | 4,034 | 1,134 | - | 5,312 |
| Unrealized gain/(loss), net | 2,053 | 7,157 | 11,104 | 2,648 | - | 22,962 |
| Interest/dividends | - | 49 | 1,905 | 693 | - | 2,647 |
| Actuarial adjustment | - | - | - | - | 488 | 488 |
| Balance at July 1, 2011 | $ 15,767 | $ 69,396 | $ 74,380 | $ 33,667 | $ 5,251 | $ 198,461 |
| Purchases | 30 | 6,976 | 14,485 | 10,456 | - | 31,947 |
| Sales | (1,723) | (1,596) | (22,596) | (6,251) | - | (32,166) |
| Transfers in | 6,412 | - | - | - | - | 6,412 |
| Realized gain/(loss), net | (535) | (10) | 19 | 1,248 | - | 722 |
| Unrealized gain/(loss), net | (1,799) | 905 | 4,597 | 2,434 | - | 6,137 |
| Interest/dividends | - | - | 256 | 1,684 | - | 1,940 |
| Actuarial adjustment | - | - | - | - | 501 | 501 |
| Balance at June 30, 2012 | $ 18,152 | $ 75,671 | $ 71,141 | $ 43,238 | $ 5,752 | $ 213,954 |

Net appreciation/(depreciation) on investments and beneficial interest in trusts are reflected in the line "Realized and unrealized gains/(losses), net of spending allocation" and "Other investment income," respectively, on the Statement of Activities. Also included in those accounts are net unrealized gains/(losses) on investments and actuarial adjustment on beneficial interest in trusts for Level 3 assets still held at June 30, 2012 and 2011 of $6,137 and $22,962, respectively. The College's policy is to recognize transfers in and transfers out of Level 1, Level 2, and Level 3 at the beginning of the reporting period. Transfers in to Level 3 during the period ending June 30, 2012 is due to change in liquidity terms.

The following table shows the fair value, unfunded commitments and redemption restrictions for investments reported at Net Asset Value at June 30, 2012:

| | Fair Value at June 30, 2012 | Unfunded Commitments | Redemption Frequency | Redemption Notice Period | Strategies and Other Restrictions |
|---|---|---|---|---|---|
| Domestic equities | $ 66,546 | none | 30 to 90 days | 7 to 30 days | (1) |
| International equity funds | 88,759 | none | 15 to 90 days | 7 to 60 days | (1) |
| Domestic treasuries | 26,846 | none | 15 to 90 days | 7 to 60 days | (1) |
| Global fixed income | 17,590 | none | 7 to 10 days | 7 to 10 days | (1) |
| High yield and bank loans | 31,950 | none | 7 to 10 days | 7 to 10 days | (1) |
| Long/short equity | 23,592 | none | qtrly to 3 years | 30 to 90 days | (2) |
| Absolute return | 79,525 | none | qtrly to 3 years | 30 to 90 days | (2) |
| Private equity and venture capital | 71,141 | $ 38,960 | 1 - 15 years | none | (3) |
| Real estate, energy, and timber | 43,238 | 21,988 | 1 - 15 years | none | (3) |
| Total | $ 449,187 | $ 60,948 | | | |

June 30, 2012 and 2011
(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, 2012 and 2011 consists of the following:

| | 2012 | 2011 |
|---|---|---|
| Land and land improvements | $ 15,418 | $ 14,539 |
| Buildings and permanent improvements | 185,319 | 103,679 |
| Equipment | 21,778 | 15,775 |
| Equipment under capital lease | 1,519 | 1,024 |
| Property held for future use | 13,621 | 12,276 |
| Construction in progress | 6,646 | 85,994 |
| | 244,301 | 233,287 |
| Less accumulated depreciation | (65,817) | (58,301) |
| Net plant facilities | $ 178,484 | $ 174,986 |

At June 30, 2012 and 2011, the amount of capitalized interest included in construction in progress was $0 and $4,421, 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 December 2016.

The annual capital lease obligation at June 30, 2012 was as follows:

| Fiscal Years Ending June 30, | Lease Payments |
|---|---|
| 2013 | $ 382 |
| 2014 | 382 |
| 2015 | 382 |
| 2016 | 241 |
| 2017 | 25 |
| Total payments | 1,412 |
| Less interest | (184) |
| Total capital lease obligation | $ 1,228 |

June 30, 2012 and 2011
(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, 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| Obligations incurred | $ - | $ - |
| Obligations settled | - | - |
| Accretion expense | 31 | 30 |
| Revisions in estimated cash flows | - | - |
| | 31 | 30 |
| Beginning balance | 785 | 755 |
| Ending balance | $ 816 | $ 785 |

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

Life income and annuities payable of $42,316 and $41,420 at June 30, 2012 and 2011, 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, 2012 and 2011 also include $1,409 and $1,061, respectively, of releases to endowment within permanently restricted net assets.

**NOTE 10 - BONDS PAYABLE:**

At June 30, 2012 and 2011, bonds payable was comprised of the following:

| | 2012 | 2011 |
|---|---|---|
| Bonds issued through California Educational Facilities Authority (CEFA): | | |
| Series 1999 | $ 1,290 | $ 7,582 |
| Series 2003 | 8,205 | 8,435 |
| Series 2007 | 39,425 | 39,655 |
| Series 2009 | 83,095 | 83,095 |
| Series 2011 | 5,480 | - |
| | 137,495 | 138,767 |
| Unamortized premium/(discount), net | 72 | (355) |
| Total bonds payable | $ 137,567 | $ 138,412 |

The CEFA Series 1999 bonds are due in 2014. Annual installments range from $630 in 2013 to $660 in 2014. Interest is payable semi-annually at a rate of 4.5%.

The CEFA Series 2003 bonds are due in 2033. Annual installments range from $240 in 2013 to $600 in 2033. Interest is payable semi-annually at rates ranging from 3.5% to 4.8%, at June 30, 2012. Bonds maturing after January 1, 2020 with principal balances totaling $5,965 are subject to mandatory redemption at the outstanding principal balance plus accrued interest.

The CEFA Series 2007 bonds are due in 2038. Annual installments range from $240 in 2013 to $3,575 in 2038. Interest is payable semi-annually at rates ranging from 3.8% to 5.0%, at June 30, 2012. Bonds maturing after January 1, 2017 with principal balances totaling $36,740 are subject to mandatory redemption at the outstanding principal balance plus accrued interest.

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

June 30, 2012 and 2011
(in thousands)

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

The CEFA Series 2011 bonds are due in 2030. Annual installments range from $245 in 2015 to $480 in 2030. Interest is payable semi-annually at rates ranging from 4.0% to 5.3%, at June 30, 2012. Bonds maturing after January 1, 2026 with principal balances totaling $1,770 are subject to mandatory redemption at the outstanding principal balance plus accrued interest. Refunding proceeds of approximately $5,687 were deposited into an irrevocable trust with an escrow agent to provide for the partial redemption of the CEFA Series 1999 bonds. As a result, a portion of the CEFA Series 1999 bonds have been legally defeased, and the liability for these bonds have been removed from the Statement of Financial Position.

Interest expense was $6,845 and $4,173 for the years ended June 30, 2012 and 2011, respectively.

The maturity of bonds payable at June 30, 2012, is as follows:

| Fiscal Years Ending June 30, | Principal Amount |
|---|---|
| 2013 | $ 1,110 |
| 2014 | 1,155 |
| 2015 | 1,210 |
| 2016 | 1,260 |
| 2017 | 1,310 |
| Thereafter | 131,450 |
| | $ 137,495 |

The CEFA Series 2011, 2009, 2007, 2003, and 1999 bond agreements contain various restrictive covenants which include maintenance of certain financial ratios, as defined in the agreements.

The estimated fair value of the College's bonds payable was $148,267 and $141,466 at June 30, 2012 and 2011, respectively. This fair value was estimated based on the discounted amount of future cash outflows at current rates available to the College for debt of the same remaining maturities.

**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 and corporate obligations recorded at market value, which approximates fair value. Assets whose use is limited totaled $3,371 and $4,547, respectively, at June 30, 2012 and 2011.

**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, 2012 and 2011 totaled $3,553 and $3,340, 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, in an insurance company's separate and general accounts. The College's allocation of the net pension cost for the years ended June 30, 2012 and 2011 was $182 and $160, 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.

June 30, 2012 and 2011
(in thousands)

**NOTE 13 - NET ASSETS:**

At June 30, 2012 and 2011, net assets consists of the following:

| | 2012 | 2011 |
|---|---|---|
| Unrestricted: | | |
| For operations and designated purposes | $ 577 | $ 899 |
| Student loans | 3,140 | 3,223 |
| Board designated endowment funds | 108,757 | 117,345 |
| Plant facilities | 63,205 | 57,674 |
| Total unrestricted | $ 175,679 | $ 179,141 |
| Temporarily restricted: | | |
| Restricted for specific purposes | $ 112,035 | $ 72,062 |
| Annuity and life income contracts and agreements | 848 | 3,497 |
| Term endowments | 150,557 | 139,731 |
| Portion of perpetual endowment fund subject to a time restriction under California UPMIFA: | | |
| Without purpose restriction | 12,709 | 13,862 |
| With purpose restriction | 106,065 | 136,965 |
| Total temporarily restricted | $ 382,214 | $ 366,117 |
| Permanently restricted: | | |
| Student loans | $ 11,873 | $ 11,896 |
| Annuity and life income contracts and agreements | 10,550 | 11,383 |
| Endowment | 254,382 | 243,297 |
| Total permanently restricted | $ 276,805 | $ 266,576 |

June 30, 2012 and 2011
(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, 2012 were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2012 |
|---|---|---|---|---|
| Investment returns: | | | | |
| Earned income | $ 1,731 | $ - | $ 101 | $ 1,832 |
| Change in realized and unrealized net appreciation (depreciation) of investments | 14,109 | (19,236) | (318) | (5,445) |
| Net investment return | 15,840 | (19,236) | (217) | (3,613) |
| Endowment returns reinvested (or distributed for operations) | (27,153) | 1,410 | 282 | (25,461) |
| Net investment returns | (11,313) | (17,826) | 65 | (29,074) |
| Other changes in endowed equity: | | | | |
| Gifts | - | 4,576 | 6,901 | 11,477 |
| Other additions, net | 2,725 | (7,977) | 4,119 | (1,133) |
| Total other changes in endowed equity | 2,725 | (3,401) | 11,020 | 10,344 |
| Net change in endowed equity | (8,588) | (21,227) | 11,085 | (18,730) |
| Endowed equity, beginning of year | 117,345 | 290,558 | 243,297 | 651,200 |
| Endowed equity, end of year | $ 108,757 | $ 269,331 | $ 254,382 | $ 632,470 |

At June 30, 2012, endowed equity consists of the following assets:

| | | | | |
|---|---|---|---|---|
| Contributions receivable, net of discount | $ - | $ 107,828 | $ 4,059 | $ 111,887 |
| Investments | 108,757 | 161,503 | 250,323 | 520,583 |
| Total endowed equity | $ 108,757 | $ 269,331 | $ 254,382 | $ 632,470 |

June 30, 2012 and 2011
(in thousands)

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

Changes in the College's endowment for the year ended June 30, 2011 were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2011 |
|---|---|---|---|---|
| Investment returns: | | | | |
| Earned income | $ 5,169 | $ - | $ 23 | $ 5,192 |
| Change in realized and unrealized net appreciation (depreciation) of investments | 51,657 | 37,105 | (168) | 88,594 |
| Net investment return | 56,826 | 37,105 | (145) | 93,786 |
| Endowment returns reinvested (or distributed for operations) | (26,896) | 1,547 | 318 | (25,031) |
| Net investment returns | 29,930 | 38,652 | 173 | 68,755 |
| Other changes in endowed equity: | | | | |
| Gifts | - | 4,381 | 7,405 | 11,786 |
| Other additions, net | 2,038 | (3,871) | 544 | (1,289) |
| Total other changes in endowed equity | 2,038 | 510 | 7,949 | 10,497 |
| Net change in endowed equity | 31,968 | 39,162 | 8,122 | 79,252 |
| Endowed equity, beginning of year | 85,377 | 251,396 | 235,175 | 571,948 |
| Endowed equity, end of year | $ 117,345 | $ 290,558 | $ 243,297 | $ 651,200 |

At June 30, 2011, endowed equity consists of the following assets:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2011 |
|---|---|---|---|---|
| Contributions receivable, net of discount | $ - | $ 103,252 | $ 4,712 | $ 107,964 |
| Investments | 117,345 | 187,306 | 238,585 | 543,236 |
| Total endowed equity | $ 117,345 | $ 290,558 | $ 243,297 | $ 651,200 |

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 $12,823 and $7,681 at June 30, 2012 and 2011, respectively.

June 30, 2012 and 2011
(in thousands)

**NOTE 15 - NET STUDENT REVENUES:**

Student revenues for the years ended June 30, 2012 and 2011 consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Tuition and fees | $ 56,379 | $ 52,130 |
| Room and board | 14,728 | 13,584 |
| Gross student revenues | 71,107 | 65,714 |
| Less financial aid: | | |
| Sponsored | (13,005) | (11,463) |
| Unsponsored | (6,818) | (7,888) |
| Total financial aid | (19,823) | (19,351) |
| Net student revenues | $ 51,284 | $ 46,363 |

"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 FUND RAISING EXPENSE:**

Included in Institutional Support expenses are $4,249 and $4,025 of expenditures related to fundraising for the years ended June 30, 2012 and 2011, 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, 2012 and 2011 totaled $5,198 and $4,703, 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, 2012 and 2011 totaled $21,285 and $33,222, respectively.

The College receives contributions and promises to give from members of the Board of Trustees. For the year ended June 30, 2012 and 2011, the College received $52,724 and $8,848, repectively, of total contribution revenue from members of the Board of Trustees. At June 30, 2012 and 2011, contributions receivable from members of the Board of Trustees totaled $200,939 and $157,855, respectively.

June 30, 2012 and 2011
(in thousands)

**NOTE 19 - COMMITMENTS AND CONTINGENCIES:**

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

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

**NOTE 20 - SUBSEQUENT EVENTS:**

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

Subsequent events have been evaluated through October 24, 2012, which corresponds to the date when the financial statements are available for issuance.

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