



CLAREMONT
MCKENNA
— C O L L E G E —

2022–2023 Financial Report

CLAREMONT MCKENNA COLLEGE ANNUAL FINANCIAL REPORT

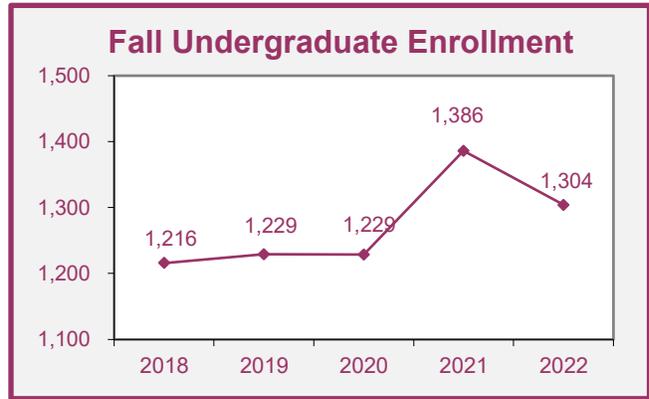
2023 and 2022

CONTENTS

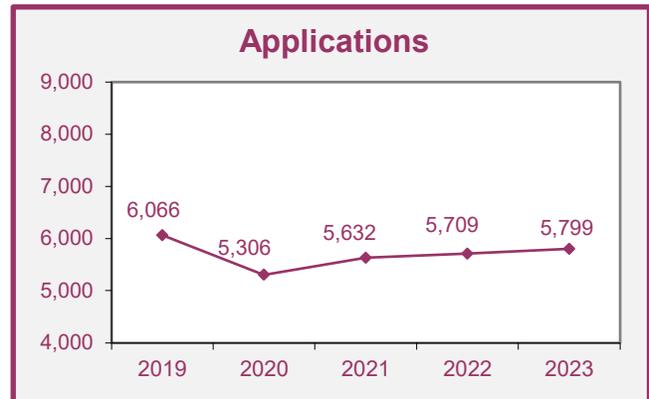
Financial Highlights	1
Treasurer's Report	5
Report of Independent Auditors	9
Consolidated Statements of Financial Position	12
Consolidated Statements of Activities	13
Consolidated Statements of Cash Flows	15
Notes to Consolidated Financial Statements	16

Financial Highlights

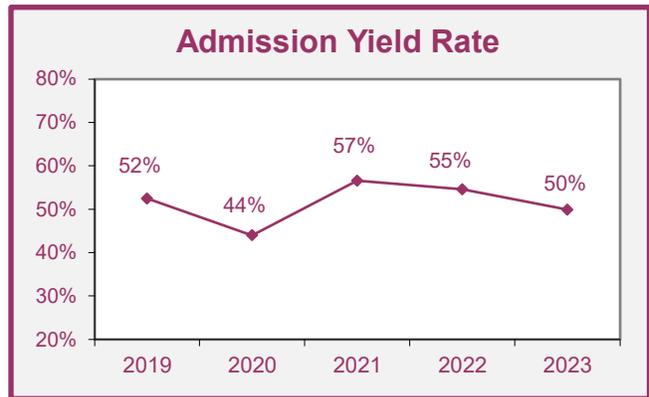
- Fall 2022 enrollment in Claremont was lower than in 2021 due to an increase in study abroad participation. Enrollment exceeded CMC's target of 1,220 due to the continued impact of 2020 admissions deferrals due to the pandemic. The total fiscal year 2022-23 average annual FTE enrollment, including off-campus and study-abroad programs, was 1,362.



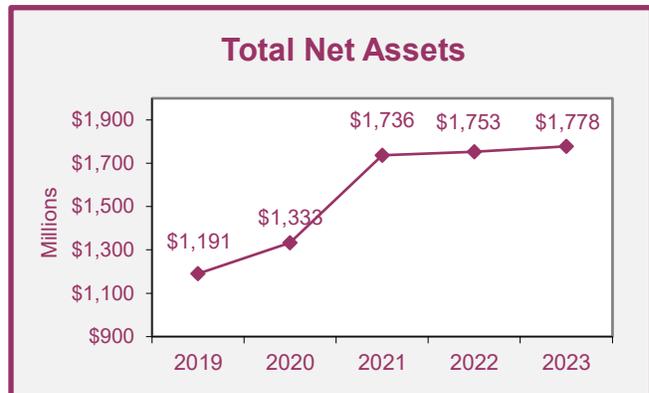
- Applications for admission in Fall 2023 increased by 2% to 5,799. The College's selectivity rate for freshman admission (acceptances divided by total applications) remained low at approximately 11%.



- The overall yield rate decreased to 50% for Fall 2023. Though the overall yield rate decreased, it is still in line with the five year average. The total number of first years entering the College in Fall 2023 was 321 students.

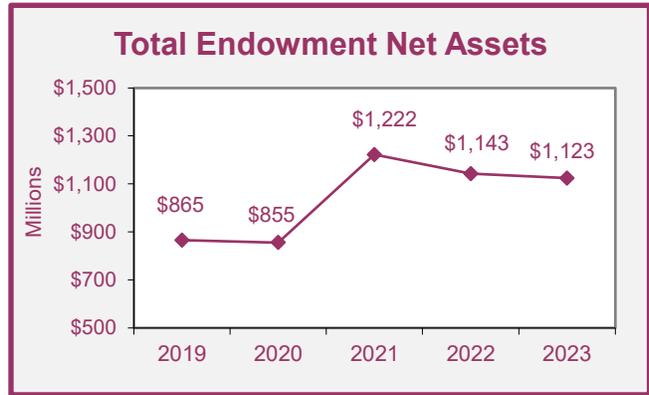


- Total net assets increased by 1%, primarily driven by contributions with donor restrictions received during the year.

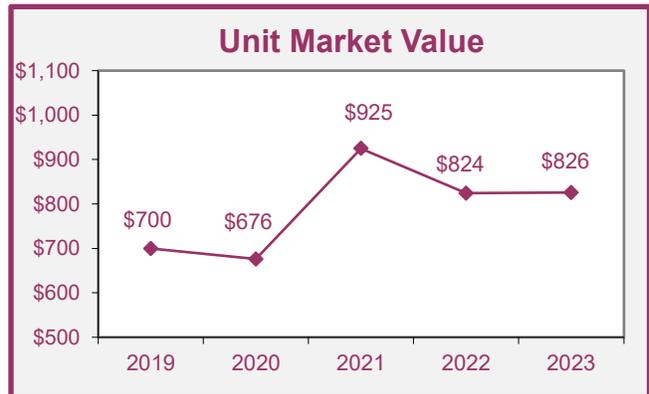


Financial Highlights

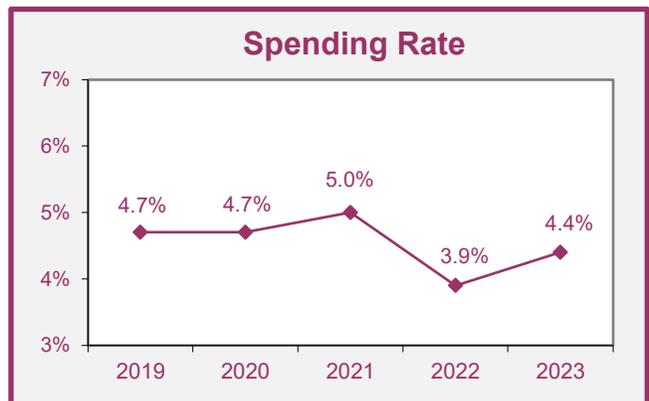
- Total endowment net assets decreased by 1.7% in 2023, after fees and spending for operations. The decrease was attributable to investment performance as well as reclassifications of endowed funds.



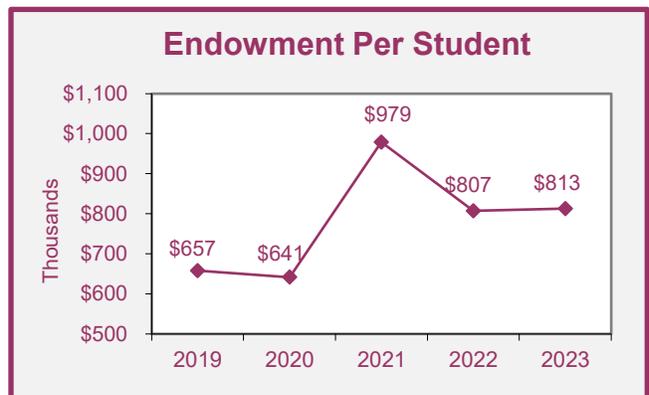
- The market value per unit in the College's investment pool increased by 0.2%. Unit market value reflects general market performance after spending for operations.



- The spending rate (spending amount per unit divided by unit market value at the beginning of the year) increased in fiscal year 2023. This was a result of the decrease in the unit market value at the end of fiscal year 2022.

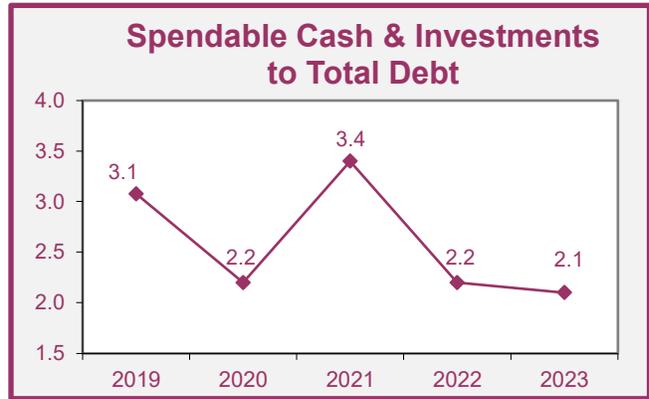


- Endowment per student increased primarily as a result of a decrease in enrollment. Total endowment at June 30, 2023, was \$1.1 billion.

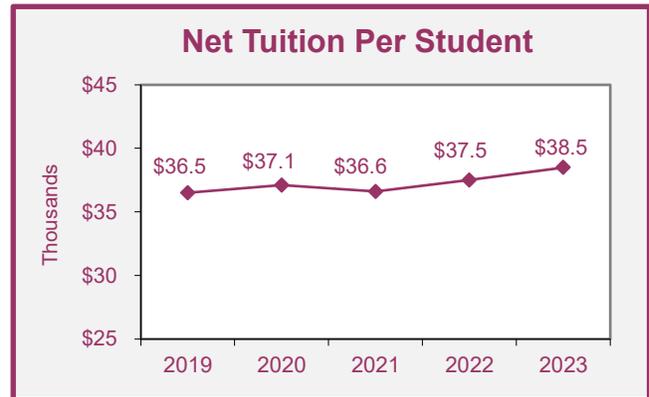


Financial Highlights

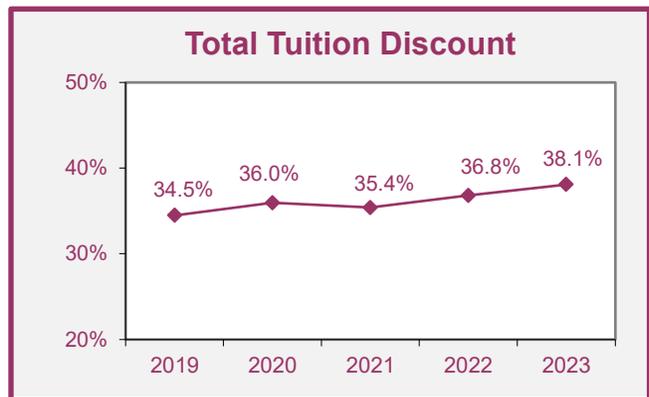
- Total spendable cash and investments to debt decreased in 2022 as a result of new bonds issued by the College. The College's ratio of 2.1 in 2023 is slightly lower than the 2022 median value of 3.8 for Moody's Aa private institutions. Moody's assigned a rating of Aa3 to CMC's Series 2022 Taxable Bonds.



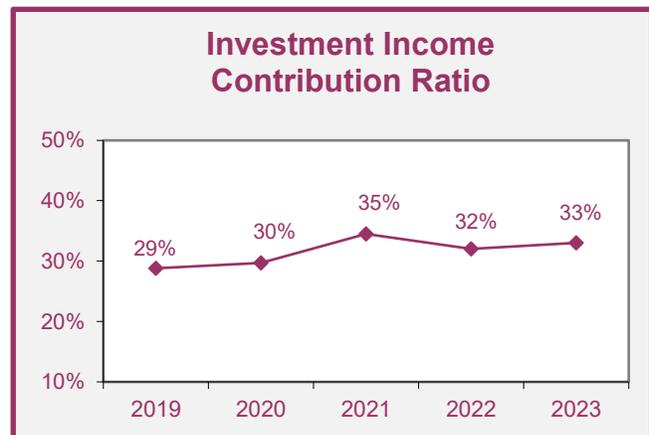
- The College's net tuition per student increased slightly due to the increase in tuition rates, while partially being offset by an increase in discount rate. CMC remains higher than the 2022 median net tuition per student of \$33,772 for Moody's Aa private institutions.



- The total tuition discount (financial aid divided by tuition and fees revenues) increased due to an increase in financial aid recipients' demonstrated need levels. CMC's discount is lower than the 2022 median discount of 39.8% for Moody's Aa private institutions.

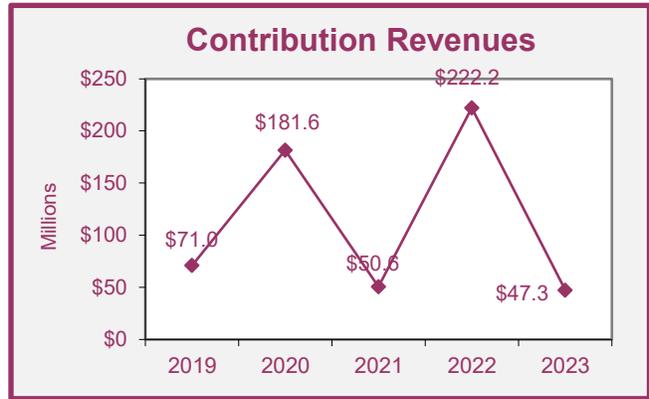


- CMC's endowment and a prudent spending policy produce sufficient investment income to make a significant contribution toward covering the operational costs of a CMC education. The investment income contribution ratio has remained stable over the past five years due to new gifts to the endowment and solid long-term investment performance.

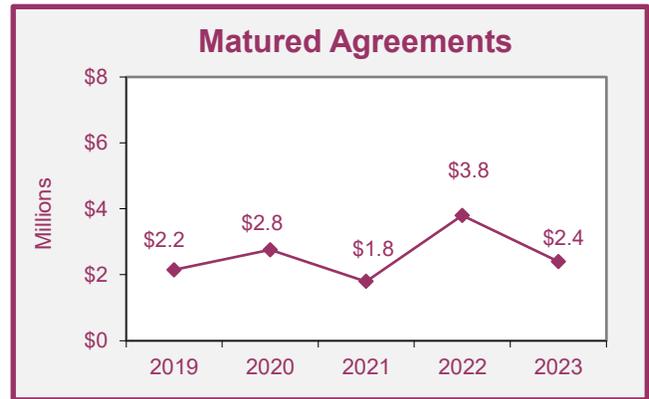


Financial Highlights

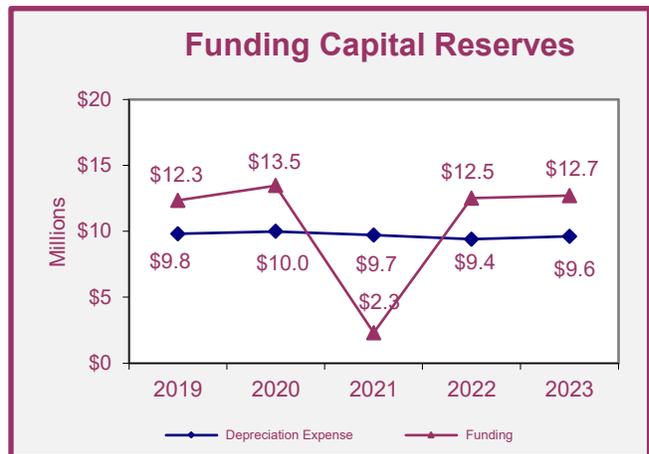
- Total contribution revenues in 2023 were strong at \$47.3 million. Total contributions have varied over the past five years primarily due to the timing of receipt of large contributions receivable received towards the College's top institutional priorities and campaign goals.



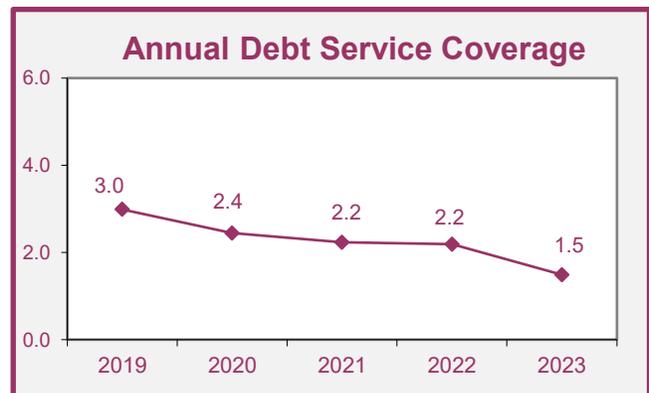
- Although unpredictable from year to year, matured annuity and life income agreements continue to provide significant resources to the College's endowment and operating funds.



- CMC continues its long standing policy of funding capital reserves for repairs, life cycle replacements, and modernization of facilities. The calculation of annual set-asides into capital reserves is based on future anticipated replacement values. CMC intentionally deferred a transfer of approximately \$12.3 million of operating funds to the capital reserves originally scheduled in 2021 to upcoming budget years.



- Annual debt service coverage (the ability to make debt service payments from annual operations) decreased in 2023. CMC's ratio is lower than the median value of 4.2 for Moody's Aa private institutions.





October 27, 2023

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

Dear Members of the Board:

The fiscal year was pivotal in terms of the conclusion of Claremont McKenna College’s record breaking \$1.1 billion *Campaign for CMC: Responsible Leadership* and key steps forward taken in strategic initiatives. This included the groundbreaking of construction on the iconic Robert Day Sciences Center in Fall 2022 as well as the successful hiring of seven outstanding scientists to pioneer the new Kravis Department of Integrated Sciences. The department launched its first course in Spring 2023 which was met with oversubscribed enrollment and positive feedback from students. The course, entitled “Codes of Life,” exemplified the department’s hallmark approach of teaching students to apply both experimental and computational methods to gain scientific insights on real-world challenges.

Another highlight of fiscal year 2022-23 was the Board’s adoption of the CMC Capital Program Policy, a policy that will strengthen the College’s long term financial resilience through prudent management of its debt portfolio. Between 2019 and 2022, the College strategically took advantage of a historically low interest rate environment to issue taxable debt under an interest only structure and to extend the maturities of outstanding bonds. The CMC Capital Program Policy established defeasance funds for the successful repayment of bond principal due in approximately 30 and 100 years. The Policy also created parameters around the use of bond proceeds as an internal, low-cost funding source to bridge the period between master plan capital expenditures and related gift receipts.

Like many other U.S. higher education institutions, the College faced the challenge of widespread rapidly rising inflation during 2022-23. Operating costs rose in several departments, most notably with regard to food product costs, insurance, and labor costs. Targeted spending reductions in areas least likely to negatively impact students’ educational experience were immediately implemented in Fall 2023. These reductions amounted to roughly \$5 million of forecasted operating budget savings, beginning with the 2023-24 fiscal year. Enhanced budget monitoring tools were also rolled out in Fall 2023, allowing campus budget supervisors to proactively identify and address any further impacts of rising costs.

CMC continues to be recognized as one of the nation’s top liberal arts colleges. Most recently, CMC was ranked ninth among all U.S. colleges according to the WSJ/College Pulse 2024 Best College in America rankings. Demand for enrollment remains incredibly strong. Fall 2022 total

student enrollment was 1,304, which exceeded the College's normal targeted on campus enrollment of 1,220. To accommodate the increased number of students, CMC expanded its housing capacity by leasing nearby, newly built apartment units. In Fall 2023, applications for admission increased by 2% and the College's selectivity rate (calculated as acceptances divided by total applications) remained one of the lowest in the country at approximately 11%.

Consolidated Statements of Financial Position

Total assets at the end of June 30, 2023 were relatively unchanged from the prior year at \$2.8 billion. Investments represented the largest category of assets at \$2.1 billion. The fiscal year 2022-23 annualized return of 5.2% was generally in line with the portfolio's benchmark annualized return of 5.8%. The 1-year fiscal year return was below the portfolio's 5-year and 10-year average returns, primarily due to private equity and venture capital investments performance. Distributions from the endowment in support of operations, and the elimination of liabilities associated with investments, offset increases in the pool from investment gains and new endowed gifts, causing total investments to remain flat year over year. Total investment assets include assets pooled from other members of The Claremont Colleges. A corresponding "funds held in trust for others" liability of \$409 million represents the non-CMC Claremont Colleges' interest in the investment portfolio as of year-end. Total investment assets also include unspent bond proceeds from the Series 2019 and Series 2022 bond issuances. As of June 30, 2023 the portfolio has generated an 8.4% annualized investment return over a 10-year period.

Distributions from the endowment are governed by a Board approved "spending policy formula." The formula is designed to preserve the endowment's real (inflation-adjusted) purchasing power while providing a predictable, stable, and constant (in real terms) stream of operating budget support. CMC's spending policy formula allows spending per unit in the investment pool to increase by 2% each year provided that the resulting increase falls within a collar of 4.5% to 5.5% of a twenty-quarter average unit market value. For fiscal year 2022-23, total distributions from endowment equaled roughly 4.4% of the market value of the endowment as of the start of the fiscal year. Investment income, in the form of spending distributions from the endowment, contributed approximately 33% toward funding the College's operating expenses.

Contributions receivable are reflected at their net present value of future cash flows, less an allowance based on the estimated collectability of each pledge. Payments on significant prior year pledges remained on schedule, and accounted for the decrease in contributions receivable from \$411 million in the prior year to \$398 million as of June 30, 2023. Pledge payments received during the year were largely in furtherance of the College's top strategic priorities, particularly integrated sciences and major capital projects identified through the master plan.

Changes to plant facilities assets were modest during the year with approximately \$25 million of assets placed into service, offset by a \$7 million increase in accumulated depreciation. The balance of plant facilities assets is expected to rise over the next several fiscal years as construction continues on the Robert Day Sciences Center and as the College develops recently acquired land east of the historic campus. The College has a long-standing practice of annual set-asides to capital reserves to fund future renovations, repairs, and maintenance of existing

facilities. During 2022-23, the College transferred total funding of approximately \$12.7 million to capital reserves.

Consolidated Statements of Activities

CMC is the first liberal arts college in history to pass a \$1 billion funds raised threshold in a single comprehensive campaign, as measured under CASE standards. The strength of CMC's fundraising was evident in private gifts and grants revenue recognized during the fiscal year (with and without donor restriction) of \$47.3 million.

Total revenues without donor restrictions increased \$2 million driven by increases in spending policy income as well as other investment income, which largely represents income earned within the College's operating cash portfolio. These increases were offset by decreases in unrestricted gift revenues and federal grant revenue during the year. Net tuition per student increased by approximately 2.7%, which was lower than the published increase in tuition and fees of 5.5%. This was primarily due to an increase in the College's discount rate (financial aid as a percentage of tuition and fees) from 36.8% in 2021-22 to 38.1% in 2022-23. The rise in discount rate was in response to rising need levels among financial aid recipients as opposed to an increase in the number of students receiving aid. CMC continues to maintain a meet-all-need financial aid policy, and College affordability remains a top institutional priority.

Total expenses increased by approximately \$12.7 million during the year. The most significant change in operating expenses related to a planned increase in interest expense, relating to the College's issuance of taxable bonds in January 2022. The increase in interest expense is being supported by realized and unrealized gains earned on the unspent debt proceeds, which appear in the "other changes in net assets" category of the Statement of Activities.

Prior to other changes in net assets, CMC ended the year with total excess revenues over expenses of \$19 million. After incorporating realized and unrealized investment losses and other changes in net assets, total net assets (both with and without donor restrictions) increased by \$25.6 million during 2022-23.

Consolidated Statements of Cash Flows

There was a positive change in net cash of \$154,000 in fiscal year 2022-23. The net cash used in operating activities of \$46.4 million was offset by net cash provided by investing activities of \$21.5 million and net cash provided by financing activities of \$25.1 million. Net cash provided by investing activities was largely from net proceeds from sales of investments. Net cash provided by financing activities was largely due to contributions raised during the year for endowment, life income contracts, and other purposes. Operating cash reserves are invested using a blended strategy that seeks to maintain an appropriate level of liquidity matching the timeline of expected use of the cash. Cash flow forecasts are reviewed regularly by the Finance Committee of the Board of Trustees.

Members of the Board of Trustees
October 27, 2023

Summary

Despite the national headwinds of inflation and declines in the college age population that have shaken the higher education industry, CMC remains on solid financial footing. Demand for admission is strong, as CMC continues to be regarded as a top liberal arts institution with a unique and relevant mission. Recent successes in fundraising and excellent management of the endowment have created opportunities for further investment into CMC's mission of preparing its students for thoughtful and productive lives and responsible leadership in business, government, and the professions. In light of the many challenges and uncertainties facing higher education institutions, we continue to seek ways to strengthen the financial resiliency of the College. The Board of Trustees and administration of the College are committed to closely monitoring the uncertain and changing environment and to carefully stewarding the College's resources, keeping CMC on its positive upward trajectory.

Respectfully submitted,



Erin Watkins
Vice President of Business, Chief Financial Officer

Report of Independent Auditors

The Board of Trustees
Claremont McKenna College and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Claremont McKenna College and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Claremont McKenna College and Subsidiaries as of June 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Claremont McKenna College and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Claremont McKenna College and Subsidiaries' ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Claremont McKenna College and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Claremont McKenna College and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information Included in the Annual Financial Report

Management is responsible for the other information included in the Claremont McKenna College and Subsidiaries' annual financial report. The other information included in the annual financial report includes the Financial Highlights and Treasurer's Report but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Moss Adams LLP

Irvine, California
October 27, 2023

CLAREMONT MCKENNA COLLEGE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022
(in thousands)

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 1,170	\$ 1,016
Accounts and notes receivable, net (Note 2)	13,132	14,597
Prepaid expenses and deposits	2,419	2,312
Contributions receivable, net (Note 3)	397,641	410,821
Beneficial interest in trusts (Note 3)	718	851
Investments (Note 4)	2,075,043	2,089,470
Plant facilities, net (Note 6)	<u>309,957</u>	<u>291,377</u>
Total assets	<u>\$ 2,800,080</u>	<u>\$ 2,810,444</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 26,478	\$ 32,402
Funds held in trust for others (Note 7)	409,147	403,362
Deposits and deferred revenues	1,428	2,245
Financing lease obligation (Note 8)	658	603
Life income and annuities payable	61,396	62,282
Liabilities associated with investments	-	34,242
Bonds payable (Note 9)	521,399	521,333
Government advances for student loans	352	411
Asset retirement obligation (Note 11)	<u>1,036</u>	<u>996</u>
Total liabilities	<u>1,021,894</u>	<u>1,057,876</u>
Net Assets (Note 12):		
Without donor restrictions	368,401	370,900
With donor restrictions	<u>1,409,785</u>	<u>1,381,668</u>
Total net assets	<u>1,778,186</u>	<u>1,752,568</u>
Total liabilities and net assets	<u>\$ 2,800,080</u>	<u>\$ 2,810,444</u>

CLAREMONT MCKENNA COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2023
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total 2023
Revenues:			
Net student revenues (Note 15)	\$ 74,740	\$ -	\$ 74,740
Private gifts and grants	4,294	43,214	47,508
Federal grants	1,576	-	1,576
Private contracts	36	-	36
Spending policy income	23,079	34,291	57,370
Other investment income (loss), net	5,882	(20)	5,862
Other revenues	2,585	-	2,585
Release of net assets			
Restricted gifts	22,950	(22,950)	-
Restricted spending policy income	27,375	(27,375)	-
Annuity and life income	124	(124)	-
Total revenues and release of net assets	<u>162,641</u>	<u>27,036</u>	<u>189,677</u>
Expenses:			
Instruction	59,829	-	59,829
Research	12,409	-	12,409
Academic support	9,681	-	9,681
Student services	33,074	-	33,074
Institutional support	27,591	-	27,591
Auxiliary enterprises	28,091	-	28,091
Total expenses	<u>170,675</u>	<u>-</u>	<u>170,675</u>
(Deficit) excess of revenues over expenses	(8,034)	27,036	19,002
Other changes in net assets			
Realized and unrealized gain, net of spending allocation	4,315	2,226	6,541
Realized losses on contributions receivable	-	(2,459)	(2,459)
Release of net assets for plant facilities	256	(256)	-
Donor redesignations between net asset classes	(132)	132	-
Transfers to other Claremont Colleges	927	-	927
Actuarial adjustment	169	1,438	1,607
Change in net assets	(2,499)	28,117	25,618
Net assets at beginning of year	<u>370,900</u>	<u>1,381,668</u>	<u>1,752,568</u>
Net assets at end of year	<u>\$ 368,401</u>	<u>\$ 1,409,785</u>	<u>\$ 1,778,186</u>

CLAREMONT MCKENNA COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2022
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total 2022
Revenues:			
Net student revenues (Note 15)	\$ 73,758	\$ -	\$ 73,758
Private gifts and grants	5,412	216,820	222,232
Federal grants	5,571	-	5,571
Private contracts	32	-	32
Spending policy income	19,327	33,000	52,327
Other investment income, net	3,692	46	3,738
Other revenues	1,852	-	1,852
Release of net assets			-
Restricted gifts	22,147	(22,147)	-
Restricted spending policy income	27,460	(27,460)	-
Annuity and life income	723	(723)	-
	<u>159,974</u>	<u>199,536</u>	<u>359,510</u>
Total revenues and release of net assets			
Expenses:			
Instruction	48,091	-	48,091
Research	11,066	-	11,066
Academic support	9,462	-	9,462
Student services	28,215	-	28,215
Institutional support	34,436	-	34,436
Auxiliary enterprises	26,624	-	26,624
	<u>157,894</u>	<u>-</u>	<u>157,894</u>
Total expenses			
Excess of revenues over expenses	2,080	199,536	201,616
Other changes in net assets			
Realized and unrealized losses, net of spending allocation	(67,932)	(108,009)	(175,941)
Loss on bond defeasance	(2,443)	-	(2,443)
Realized losses on contributions receivable	-	(26)	(26)
Release of net assets for plant facilities	610	(610)	-
Transfers to other Claremont Colleges	(360)	-	(360)
Actuarial adjustment	(154)	(6,560)	(6,714)
Donor redesignations between net asset classes	(653)	653	-
	<u>(68,852)</u>	<u>84,984</u>	<u>16,132</u>
Change in net assets			
Net assets at beginning of year	<u>439,752</u>	<u>1,296,684</u>	<u>1,736,436</u>
Net assets at end of year	<u>\$ 370,900</u>	<u>\$ 1,381,668</u>	<u>\$ 1,752,568</u>

CLAREMONT MCKENNA COLLEGE

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2023 and 2022
(in thousands)

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 25,618	\$ 16,132
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	9,610	9,441
Amortization and accretion expense	228	129
Loss on debt defeasance	-	(8,026)
Increase in beneficial interest in trusts	133	276
Change in allowance for doubtful accounts	111	(105)
Forgiveness of notes receivable	335	289
Discount on life income contract gifts	3,679	6,600
Realized and unrealized (gains) losses on investments	(69,244)	193,161
Contributions restricted for long-term investments	(27,949)	(208,822)
Adjustment of actuarial liability for annuities payable	(2,514)	(1,878)
Decrease/(increase) in accounts and contributions receivable	14,679	(156,125)
Decrease in prepaid expenses and deposits	(107)	(1,140)
(Decrease)/increase in accounts payable and accrued liabilities	(5,924)	10,619
Increase/(decrease) in funds held in trust for others	5,785	(42,573)
(Decrease)/increase in deposits and deferred revenues	(817)	576
	(46,377)	(181,446)
Net cash used in operating activities		
Cash flows from investing activities:		
Purchase of works of art	(224)	(666)
Purchase of plant facilities	(27,683)	(19,665)
Purchases of investments	(1,356,895)	(2,197,175)
Proceeds from sales of investments	1,440,993	2,029,667
Decrease in liabilities associated with investments	(34,242)	(36,053)
Loans made to students and employees	(1,463)	(1,351)
Collection of student and employee loans	983	1,347
	21,469	(223,896)
Net cash provided by/(used in) investing activities		
Cash flows from financing activities:		
Payments to annuity and life income beneficiaries	(4,782)	(5,173)
Investment income for annuity and life income investments	2,304	3,819
Proceeds from bonds and notes payable	-	300,000
Debt issuance costs	-	(2,570)
Defeasance of bonds payable	-	(96,300)
Principal payments for bonds and leases	(350)	(3,585)
Contributions restricted for life income contracts	3,830	2,617
Contributions restricted for endowment	8,612	2,362
Contributions restricted for specific purposes	15,507	203,843
Decrease in government advances for student loans	(59)	(79)
	25,062	404,934
Net cash provided by financing activities		
Change in cash	154	(408)
Cash, beginning of year	1,016	1,424
	\$ 1,170	\$ 1,016
Cash, end of year		

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Established in 1946, Claremont McKenna College (the “College”) is a highly selective, independent, coeducational, residential, liberal arts college. The College’s mission, within the mutually supportive framework of The Claremont Colleges (Note 19), 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 (IRC) and corresponding California provisions. The objective of the College is to maintain and conduct a nonprofit educational institution. The primary purpose of the accounting and reporting is the recording of resources received and applied rather than the determination of net income.

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

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

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.

Net Asset Categories:

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

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

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

Revenue Recognition:

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

The College offers both need-based and merit-based aid. Institutional awards in the form of financial aid scholarships and grants, including those funded by the endowment and gifts, are reported as a reduction to student tuition revenues.

Contributions of private gifts and grants, 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 in more than one year are discounted at an appropriate discount rate.

Revenue from grants and contracts that are nonreciprocal are treated like contributions. If the grant or contract is conditional, a barrier to entitlement exists; revenue is recognized when the barrier is considered overcome and as allowable expenditures under such agreements are incurred, as an increase to net assets without donor restrictions. If the grant or contract is unconditional, revenue is reported as an increase in net assets without donor restrictions.

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

Release of Donor-Imposed Restrictions:

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction substantially expires. At that time, the related resources are reclassified to net assets without donor restrictions. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or when unexpended endowment earnings are appropriated by the Board of Trustees. Contributions of cash or other assets received for the acquisition of long-lived assets are released from restriction when the long-lived assets are placed into service.

Allocation of Certain Expenses:

Expenses are reported as decreases in net assets without donor restrictions. The Consolidated Statements of Activities present expenses by functional classification. Depreciation and the cost of operation and maintenance of plant facilities are allocated to functional categories based on building square footage dedicated to that specific function. Interest expense is allocated based on the use of the related borrowings. Other expenses are recorded to their respective functional category based on their relative direct charge.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

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

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.

Supplemental disclosures of cash flow information include the following at June 30, 2023 and 2022:

	2023	2022
Cash paid for interest	\$ 18,171	\$ 9,811
Plant facilities acquired by financing lease	555	150

Cash Held in Separate Accounts:

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

Concentration of Credit Risk:

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash deposits at financial institutions, investments and receivables. At times, balances in the College's cash and investment accounts exceed the Federal Deposit Insurance Corporation (FDIC) or Securities Investor 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.

Contributions Receivable:

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions receivable are recorded after discounting to the present value of future cash flows at rates ranging from 1.2% to 5.7%. An allowance for uncollectible contributions receivable is estimated based upon management's assessments of historical and expected net collections. The College evaluates collectability of contributions receivable on an annual basis and writes off those deemed uncollectible.

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, 2023 and 2022. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the investments. Because non-marketable investments are not readily marketable, the estimated value is subject to uncertainty and such differences could be material.

The cost of securities sold is determined by the average cost method and is used to compute realized gains and losses. Unrealized gains and losses reflect the changes in the fair values of investments from the prior year. Investment income and gains and losses on investments are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law. Investment income is reported net of management and custody fees. The date of record for investments is the trade date.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

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

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. The Board of Trustees may, at its discretion, approve additional spending for special projects. The amount of investment return available for current operations will be determined by applying an increase of 2.0% to the prior year unit spending rate, provided that the resulting calculation falls within a collar of 4.5% to 5.5% of a twenty quarter average unit fair value.

Endowment Funds:

The Board of Trustees of the College interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) to state that the College, in the absence of explicit donor stipulations to the contrary, may appropriate for expenditure or accumulate so much of an endowment fund as the College determines prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. As a result of this interpretation, the College classifies as net assets with donor restrictions the original value of gifts donated to the endowment, original value of subsequent gifts to the endowment, and accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund is classified in net assets with donor restriction until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA, which includes consideration of the:

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

Assets Held in Trust for Others:

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

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

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

Plant Facilities:

Plant facilities consist of property, plant, equipment and works of art which are stated at cost, representing the original purchase price or the fair value at the date of the gift, less accumulated depreciation computed on a straight-line basis over the estimated useful lives of buildings, permanent improvements, and equipment. Plant purchases with a useful life of 5 years or more and a cost equal to or greater than \$100 for land improvements and buildings and \$25 for equipment are capitalized. Estimated useful lives are generally 7 years for equipment, 50 years for buildings and 25 years for permanent improvements. Building improvements that extend the remaining useful life of the building are depreciated over a period not to exceed 20 years. Land, works of art and construction in progress are not depreciated. Assets are retired at their cost less accumulated depreciation at the time they are sold, impaired, or no longer in use. Each year the College transfers to its capital project reserves an amount to allow for the preservation of its existing facilities into the future. Asset retirement obligations are recorded based on estimated settlement dates and methods.

No significant property or equipment has been pledged as collateral or otherwise subject to lien for the years ended June 30, 2023 and 2022. 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 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 0.4% to 9.0% and over estimated lives according to the IRS Annuity 2012 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.

Liabilities Associated with Investments:

The College may sell securities that it does not own in anticipation of a decline in the fair value of that security. The value of the open short position is recorded as a liability, and the College records an unrealized gain or loss to the extent of the difference between the proceeds received and value of the open short position. The College will recognize a realized gain or loss upon the termination of the short sale. The College is also liable to pay any dividends declared during the period the short sale is open.

Cash equivalents and domestic treasuries, recorded in investments, of \$0 and \$71,635 were provided at June 30, 2023 and 2022 to collateralize securities sold short.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

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

Income Taxes:

The College had no unrecognized tax benefits and/or obligations or uncertain tax positions at June 30, 2023 and 2022.

Redesignation of Net Assets:

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

Use of Estimates:

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

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.

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 a 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).

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.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

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

Fair Value of Financial Instruments: Continued

Investments in cash equivalents and certain global fixed income and global equity funds are valued based on quoted market prices and are therefore typically classified within Level 1.

Investments in domestic treasuries are valued based on quoted market prices of comparable assets and typically classified within Level 2.

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

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

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

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

Reclassifications:

Certain 2022 amounts have been reclassified to conform to 2023 presentation.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

NOTE 2 - ACCOUNTS AND NOTES RECEIVABLE:

Accounts and notes receivable at June 30, 2023 and 2022 are as follows:

	2023	2022
Student notes receivable	\$ 7,337	\$ 6,868
Federal loan funds	275	365
Other Claremont Colleges	1,052	1,727
Student accounts receivable	471	307
Grants and contracts receivable	637	2,459
Housing assistance notes receivable	3,101	3,336
Other	1,245	410
	<u>14,118</u>	<u>15,472</u>
Less allowance for doubtful accounts and notes receivable	(986)	(875)
Net accounts and notes receivable	<u>\$ 13,132</u>	<u>\$ 14,597</u>

NOTE 3 - CONTRIBUTIONS RECEIVABLE AND BENEFICIAL INTEREST IN TRUSTS:

Contributions receivable at June 30, 2023 and 2022 are expected to be realized as follows:

	2023	2022
Within one year	\$ 39,413	\$ 39,763
Between one year and five years	202,085	196,132
Thereafter	253,825	282,960
	<u>495,323</u>	<u>518,855</u>
Less discount	(96,057)	(106,369)
Less allowance for doubtful contributions receivable	(1,625)	(1,665)
Net contributions receivable	<u>\$ 397,641</u>	<u>\$ 410,821</u>

Contributions receivable at June 30, 2023 and 2022 are intended for the following uses:

	2023	2022
Endowment	\$ 83,050	\$ 82,316
Plant	76,789	77,712
Programmatic and current use	237,802	250,793
Net contributions receivable	<u>\$ 397,641</u>	<u>\$ 410,821</u>

At June 30, 2023 and 2022, 80.5% and 82.8% of contributions receivable were due from five donors, respectively.

At June 30, 2023 and 2022, the College had knowledge of conditional promises to give in the amount of \$6,937 and \$689, respectively. The promises will be recognized as revenue when the conditions are met.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

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

Conditional promises to give at June 30, 2023 and 2022, are intended for the following uses:

	2023	2022
Scholarship endowments	589	589
General purposes of the College	100	100
Plant Facilities	6,248	-
Total conditional promises to give	<u>\$ 6,937</u>	<u>\$ 689</u>

At June 30, 2023 and 2022, the College held a beneficial interest in outside trusts of \$718 and \$851, 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, measured at the estimated expected future benefits to be received when the trust assets are distributed. The contribution revenue recognized is classified as an increase in net assets with donor restrictions based on the time or use restrictions placed by the donor upon the College's beneficial interest in the assets. Actuarial adjustments to the fair value of the beneficial trusts may occur due to changes in estimates of the donor's life expectancy or changes in discount rates resulting from risks commensurate with the contributions.

NOTE 4 - INVESTMENTS:

It is the College's policy to establish and maintain a diversified investment portfolio. The carrying value of investments are based on the quoted market prices, analytical pricing methods for investments for which there is no market, and the carrying value of limited partnership net assets in proportion to the College's interest. The carrying values are considered fair values. The following schedule summarizes the assets in pooled investments and the assets held as separate investments at June 30, 2023 and 2022:

	2023	2022
Cash equivalents	\$ 36,983	\$ 112,586
Cash equivalents - limited use (Note 10)	9,477	8,676
Global equity	786,005	728,309
Domestic treasuries	235,065	261,687
Global fixed income	83,446	110,780
Private investments:		
Long/short equity	90,965	77,741
Absolute return funds	161,744	113,081
Private equity and venture capital	527,783	549,668
Real assets	143,575	126,942
Total by asset type	<u>\$ 2,075,043</u>	<u>\$ 2,089,470</u>

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

NOTE 5 - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS:

The following tables present financial assets and liabilities carried on the Statements of Financial Position at fair value as of June 30, 2023 and 2022:

	Level 1	Level 2	Level 3	Assets Measured using NAV or Equivalent	2023
Financial Assets:					
Cash equivalents	\$ 36,983	\$ -	\$ -	\$ -	\$ 36,983
Cash equivalents - limited use	9,477	-	-	-	9,477
Global equity	166,178	-	-	619,827	786,005
Domestic treasuries	-	235,065	-	-	235,065
Global fixed income	-	3,801	-	79,645	83,446
Private investments:					
Long/short equity	-	-	-	90,965	90,965
Absolute return	-	-	-	161,744	161,744
Private equity and venture capital	-	-	-	527,783	527,783
Real assets	-	-	-	143,575	143,575
Beneficial interest in trusts	-	-	718	-	718
Total financial assets at fair value	\$ 212,638	\$ 238,866	\$ 718	\$ 1,623,539	\$ 2,075,761

Financial Liabilities:					
Funds held in trust for others	\$ -	\$ 407,804	\$ -	\$ -	\$ 407,804
Total financial assets at fair value	\$ -	\$ 407,804	\$ -	\$ -	\$ 407,804

	Level 1	Level 2	Level 3	Assets Measured using NAV or Equivalent	2022
Financial Assets:					
Cash equivalents	\$ 112,586	\$ -	\$ -	\$ -	\$ 112,586
Cash equivalents - limited use	8,676	-	-	-	8,676
Global equity	129,630	-	-	598,679	728,309
Domestic treasuries	-	261,687	-	-	261,687
Global fixed income	-	4,313	-	106,467	110,780
Private investments:					
Long/short equity	-	-	-	77,741	77,741
Absolute return	-	-	-	113,081	113,081
Private equity and venture capital	-	-	-	549,668	549,668
Real assets	-	-	720	126,222	126,942
Beneficial interest in trusts	-	-	851	-	851
Total financial assets at fair value	\$ 250,892	\$ 266,000	\$ 1,571	\$ 1,571,858	\$ 2,090,321

Financial Liabilities:					
Funds held in trust for others	\$ -	\$ 401,373	\$ -	\$ -	\$ 401,373
Liabilities associated with investments:					
Securities sold short	-	34,242	-	-	34,242
Total financial assets at fair value	\$ -	\$ 435,615	\$ -	\$ -	\$ 435,615

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(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, 2023 and 2022:

	Real Assets	Beneficial Interest in Trusts	Total
Balance at July 1, 2021	\$ 720	\$ 1,127	\$ 1,847
Actuarial adjustment	-	(276)	(276)
Balance at June 30, 2022	720	851	1,571
Sales	(720)	-	(720)
Actuarial adjustment	-	(133)	(133)
Balance at June 30, 2023	\$ -	\$ 718	\$ 718

Net appreciation/(depreciation) on investments and beneficial interest in trusts are reflected in the line "Realized and unrealized gains/(losses), net of spending allocation" and "Other investment income," respectively, on the Consolidated Statements of Activities. The College's policy is to recognize transfers in and transfers out of Level 1, Level 2, and Level 3 at the beginning of the reporting period.

The following table shows the fair value, unfunded commitments and redemption restrictions for investments reported at NAV at June 30, 2023:

	Fair Value at June 30, 2023	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Global equity	\$ 619,827	none	1 day to 4 years	1 to 150 days	(1)
Global fixed income	79,645	none	1 to 90 days	5 to 60 days	(1)
Private investments:					
Long/short equity	90,965	\$ -	1 to 36 months	60 to 90 days	(2)
Absolute return	161,744	6,281	3 to 12 months	60 to 90 days	(2)
Private equity and venture capital	527,783	295,404	N/A	N/A	(3)
Real assets	143,575	134,141	N/A	N/A	(3)
Total	\$ 1,623,539	\$ 435,826			

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(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 NAV per statement as reported by each underlying fund. Most funds have no significant redemption restrictions in place.

(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 NAV per share as reported by each underlying fund.

(3) These categories include investments in leveraged buyout, distressed securities, venture capital, and real asset private limited partnership funds. The real asset 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 NAV 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, 2023 and 2022 consists of the following:

	2023	2022
Land and land improvements	\$ 65,924	\$ 50,254
Buildings and permanent improvements	311,490	311,490
Equipment	27,377	27,377
Works of art	11,302	11,078
Equipment under finance lease right-of-use assets	847	3,102
Property held for future use	16,294	15,520
Construction in progress	32,334	21,095
	<u>465,568</u>	<u>439,916</u>
Less: accumulated depreciation and amortization	(155,611)	(148,539)
Net plant facilities	<u>\$ 309,957</u>	<u>\$ 291,377</u>

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

NOTE 7 - FUNDS HELD IN TRUST FOR OTHERS:

At June 30, 2023 and 2022 funds held in trust for others consists of the following:

	2023	2022
College held third-party remainder interests held in trust	\$ 1,343	\$ 1,989
Other Claremont Colleges' interest in investment portfolio	407,804	401,373
Total funds held in trust for others	<u>\$ 409,147</u>	<u>\$ 403,362</u>

NOTE 8 - FINANCE LEASE OBLIGATION:

The College has entered into finance and operating lease obligations for computer and lab equipment. The corresponding obligations are due in monthly and annual installments with maturities through January 2028 and are secured by associated equipment.

Finance Lease cost of the years ended June 30, 2023 and 2022 was \$412 and \$433 , respectively. Amortization of finance right of use assets was \$380 and \$395 for the years ended June 30, 2023 and 2022 , respectively. Total interest expense was \$33 and \$38 for the years ended June 30, 2023 and 2022 , respectively.

The annual financing lease obligation is as follows:

Fiscal Years Ending June 30,	Finance Lease Payments
2024	\$ 259
2025	173
2026	128
2027	77
2028	<u>21</u>
Less interest/present value discount	-
Total lease obligation	<u>\$ 658</u>

The following table provides supplemental information related to the College's finance and operating leases as of June 30, 2023

	Finance Lease
Weighted-average remaining lease term in years for leases	2.86
Weighted-average discount rate for leases	4.06%

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

NOTE 9 - BONDS PAYABLE:

At June 30, 2023 and 2022, bonds payable was comprised of the following:

	2023	2022
Taxable Bonds		
Series 2019	\$ 225,000	\$ 225,000
Series 2022	300,000	300,000
	<u>525,000</u>	<u>525,000</u>
Less unamortized issuance costs	(3,601)	(3,667)
	<u>\$ 521,399</u>	<u>\$ 521,333</u>

In December 2019, the College issued \$225 million of taxable bonds at a rate of 3.38%, with all principal due in 2050. The bonds are general unsecured obligations of the College. The College is required to make semi-annual payments of interest.

In January 2022, the College issued \$300 million of taxable bonds at a rate of 3.78%, with all principal due in 2122. The bonds are general unsecured obligations of the College. The College is required to make semi-annual payments of interest.

Interest expense was \$18,926 and \$14,687 for the years ended June 30, 2023 and 2022, respectively.

The maturity of note and bonds payable at June 30, 2023, is as follows:

Fiscal Years Ending June 30,	Principal Amount
2024	\$ -
2025	-
2026	-
2027	-
2028	-
Thereafter	<u>525,000</u>
	<u>\$ 525,000</u>

The Taxable Series 2019 and 2022 bond agreements contain various non-restrictive covenants as defined in the agreements.

NOTE 10 - ASSETS WHOSE USE IS LIMITED:

Indenture requirements of bond financing (see Note 9, 'Bonds Payable') provide for the establishment and maintenance of various accounts with trustees. The indenture terms limit the use of these funds to capital expenditures and debt service payments as outlined in the agreements. Assets whose use is limited are comprised of cash equivalents recorded at fair value, which approximates fair value. Assets whose use is limited, which is included in investments, totaled \$9,477 and \$8,676, respectively, at June 30, 2023 and 2022.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

NOTE 11 - ASSET RETIREMENT OBLIGATION:

The College has recorded asset retirement obligations related to certain plant facilities, 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, 2023 and 2022:

	2023	2022
Accretion expense	\$ 40	\$ 38
Beginning balance	996	958
Ending balance	<u>\$ 1,036</u>	<u>\$ 996</u>

NOTE 12 - NET ASSETS:

At June 30, 2023 and 2022, net assets consists of the following:

	2023	2022
Net assets (deficit) without donor restrictions:		
For operations, designated purposes, and plant facilities	\$ (91,655)	\$ 89,578
Bond proceeds designated for general operations	206,376	-
Housing assistance and student loans	6,109	5,876
Board designated endowment funds	247,571	275,446
Total net assets without donor restrictions	<u>\$ 368,401</u>	<u>\$ 370,900</u>

	2023	2022
Net assets with donor restrictions:		
Restricted for specific purposes	\$ 418,234	\$ 404,208
Annuity and life income contracts and agreements	20,622	15,911
Term endowments	37,682	48,587
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:		
Without purpose restriction	25,783	25,724
With purpose restriction	342,003	340,842
Student loans	12,032	12,009
Perpetual endowment funds	553,429	534,387
Total net assets with donor restrictions	<u>\$ 1,409,785</u>	<u>\$ 1,381,668</u>

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

NOTE 13 - ENDOWMENT:

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

Changes in the College's endowment for the year ended June 30, 2023 were as follows:

	Without Donor Restrictions	With Donor Restrictions	2023
Investment returns:			
Investment income (loss)	\$ 41,619	\$ (321)	\$ 41,298
Endowment returns reinvested (or distributed for operations)	(55,628)	5,928	(49,700)
Net investment returns	<u>(14,009)</u>	<u>5,607</u>	<u>(8,402)</u>
Other changes in endowed equity:			
Gifts	-	8,612	8,612
Transfer to quasi-endowment	-	-	-
Other changes	(13,866)	(4,862)	(18,728)
Total other changes in endowed equity	<u>(13,866)</u>	<u>3,750</u>	<u>(10,116)</u>
Net change in endowed equity	(27,875)	9,357	(18,518)
Endowed equity, beginning of year	<u>275,446</u>	<u>949,540</u>	<u>1,224,986</u>
Endowed equity, end of year	<u>\$ 247,571</u>	<u>\$ 958,897</u>	<u>\$ 1,206,468</u>

At June 30, 2023, endowed equity consists of the following assets:

Contributions receivable, net of discount	\$ -	\$ 83,050	\$ 83,050
Investments	<u>247,571</u>	<u>875,847</u>	<u>1,123,418</u>
Total endowed equity	<u>\$ 247,571</u>	<u>\$ 958,897</u>	<u>\$ 1,206,468</u>

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

NOTE 13 - ENDOWMENT, *Continued* :

Changes in the College's endowment for the year ended June 30, 2022 were as follows:

	Without Donor Restrictions	With Donor Restrictions	2022
Investment returns:			
Investment income (loss)	\$ 21,690	\$ (103,013)	\$ (81,323)
Endowment returns reinvested (or distributed for operations)	(50,457)	5,644	(44,813)
Net investment returns	(28,767)	(97,369)	(126,136)
Other changes in endowed equity:			
Gifts	-	10,350	10,350
Transfer to quasi-endowment	35,000	-	35,000
Other changes	(1,603)	(5,851)	(7,454)
Total other changes in endowed equity	33,397	4,499	37,896
Net change in endowed equity	4,630	(92,870)	(88,240)
Endowed equity, beginning of year	270,816	1,042,410	1,313,226
Endowed equity, end of year	<u>\$ 275,446</u>	<u>\$ 949,540</u>	<u>\$ 1,224,986</u>

At June 30, 2022, endowed equity consists of the following assets:

Contributions receivable, net of discount	\$ -	\$ 82,316	\$ 82,316
Investments	275,446	867,224	1,142,670
Total endowed equity	<u>\$ 275,446</u>	<u>\$ 949,540</u>	<u>\$ 1,224,986</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. Deficiencies for donor-restricted endowment funds were \$360 and \$991 at June 30, 2023 and 2022, respectively. Deficiencies for donor-restricted endowment funds were recorded as a reduction in endowments with donor restrictions.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

NOTE 14 - FINANCIAL ASSETS AND LIQUIDITY RESOURCES:

As of June 30, 2023 and 2022, the College’s financial assets and liquidity resources without donor restrictions and available within one year for general expenditure are as follows:

	2023	2022
Financial Assets:		
Cash	\$ 1,170	\$ 1,016
Accounts and notes receivable, net	3,405	4,903
Contributions receivable, net	3,708	3,816
Short-term investments	262,255	257,317
Funds functioning as endowment	247,571	275,446
Subsequent year's endowment payout	36,949	35,942
Total financial assets available within one year	\$ 555,058	\$ 578,440

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

NOTE 15 - NET STUDENT REVENUES:

Student revenues for the years ended June 30, 2023 and 2022 consist of the following:

	2023	2022
Tuition and fees	\$ 84,846	\$ 81,695
Room and board	22,248	22,159
Gross student revenues	107,094	103,854
Less Financial aid	(32,354)	(30,096)
Net student revenues	\$ 74,740	\$ 73,758

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

NOTE 16 - FUNCTIONAL CLASSIFICATION OF EXPENSES:

Expenses by natural classification for the years ended June 30, 2023 and 2022, consist of the following:

	Academic instruction and Research	Student and Auxiliary Services	Institutional Support	2023 Total
Direct employee costs	\$ 46,277	\$ 18,005	\$ 14,004	\$ 78,286
General services, travel and transportation	5,918	8,068	5,730	19,716
Shared services and joint programs	9,560	1,879	3,838	15,277
General supplies and other expenses	2,268	9,043	1,320	12,631
Plant maintenance and equipment	3,995	10,144	1,830	15,969
Interest expense	11,412	7,470	304	19,186
Depreciation expense	2,489	6,556	565	9,610
Total expenses	\$ 81,919	\$ 61,165	\$ 27,591	\$ 170,675

	Academic instruction and Research	Student and Auxiliary Services	Institutional Support	2022 Total
Direct employee costs	\$ 44,998	\$ 15,492	\$ 13,841	\$ 74,331
General services, travel and transportation	4,546	6,126	8,353	19,025
Shared services and joint programs	7,481	1,572	3,799	12,852
General supplies and other expenses	1,593	8,173	2,241	12,007
Plant maintenance and equipment	2,894	7,713	4,852	15,459
Interest expense	4,655	9,332	792	14,779
Depreciation expense	2,452	6,431	558	9,441
Total expenses	\$ 68,619	\$ 54,839	\$ 34,436	\$ 157,894

NOTE 17 - EMPLOYEE BENEFIT PLANS:

The College participates, with other members of The Claremont Colleges (Note 19), in a defined contribution retirement plan which provides retirement benefits to eligible personnel through Teachers Insurance and Annuity Association. Under this defined contribution plan, the 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, 2023 and 2022 totaled \$5,372 and \$7,762, respectively.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022
(in thousands)

NOTE 18 - INSTITUTIONAL SUPPORT FUNDRAISING EXPENSE:

Included in Institutional Support expenses are approximately \$5,181 and \$4,167 of expenditures related to fundraising for the years ended June 30, 2023 and 2022, respectively.

NOTE 19 - AFFILIATED INSTITUTIONS:

The College is a member of an affiliated group of colleges known as The Claremont Colleges. Each college is a separate corporate entity governed by its own board of trustees. The Claremont Colleges, Inc. (formerly Claremont University Consortium), a member of this group, is the central coordinating institution which provides common student and administrative services, including certain central facilities utilized by all The Claremont Colleges. The costs of these services and facilities are shared by the members of the group. Amounts paid by the College for such services and use of facilities for the years ended June 30, 2023 and 2022 totaled approximately \$7,394 and \$6,525, respectively.

NOTE 20 - 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 in these limited partnerships at June 30, 2023 and 2022 totaled \$39,452 and \$35,266, respectively.

The College receives contributions and promises to give from members of the Board of Trustees. For the years ended June 30, 2023 and 2022, the College received \$46,840 and \$229,062, respectively, of total private gifts and grants from members of the Board of Trustees. For the years ended June 30, 2023 and 2022, private gifts and grants from the Board of Trustees were comprised approximately of 45% and 75% from two and two members, respectively. At June 30, 2023 and 2022, contributions receivable from members of the Board of Trustees totaled \$362,202 and \$379,420, respectively.

NOTE 21 - 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.

The College has remaining contract commitments to complete the construction of a new science building totaling approximately \$133,000 as of June 30, 2023.

NOTE 22 - SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 27, 2023, which corresponds to the date when the financial statements are available for issuance.



*For additional copies, please contact
Erin Watkins
Vice President of Business and and Chief Financial Officer*

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