



CLAREMONT
MCKENNA
— C O L L E G E —

2010–2011 Financial Report

CLAREMONT MCKENNA COLLEGE ANNUAL FINANCIAL REPORT

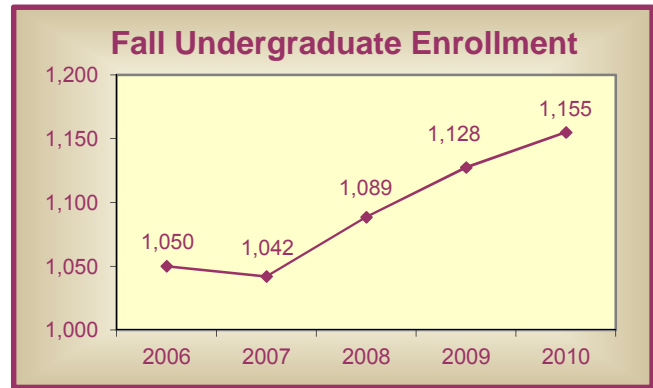
2011 and 2010

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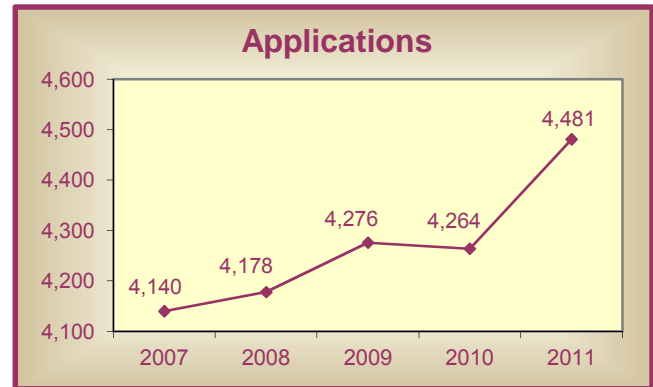
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Financial Highlights

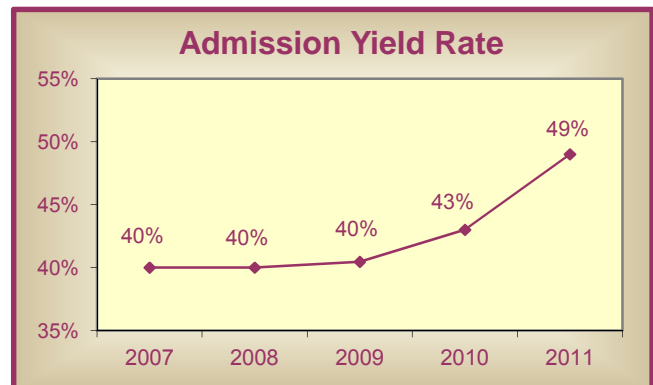
- Fall 2010 FTE undergraduate enrollment in Claremont reflects a planned increase from prior years. The average FTE undergraduate enrollment for the year (Fall and Spring) was 1,156. FTE undergraduate enrollment for the 2010-11 fiscal year, including the Washington program and study-abroad programs, was 1,243.



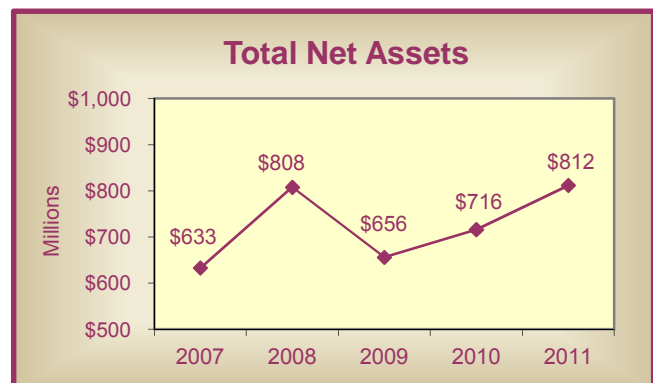
- Freshman applications for admission in the Fall of 2011 were 4,481, a marked increase over prior years. Applications for the last five years have averaged 4,268—fourteen times more applications than openings in the entering class.



- The yield rate increased to 49% for the Fall of 2011. The total number of new freshmen entering the College in Fall of 2011 was 305 students.

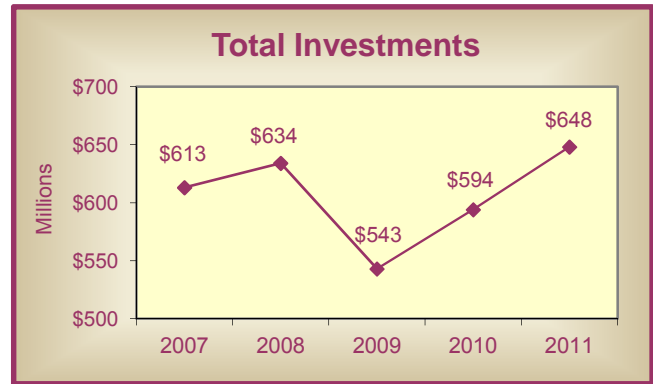


- Total net assets increased by 13% to \$812 million due primarily to realized and unrealized gains on investments.

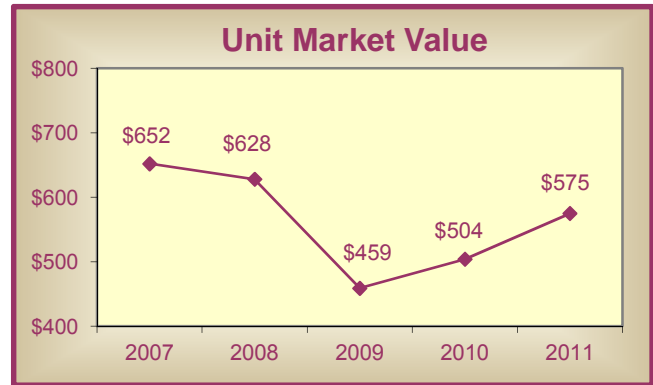


Financial Highlights

- Total investments increased by 9.1% in 2011, after fees and spending for operations.



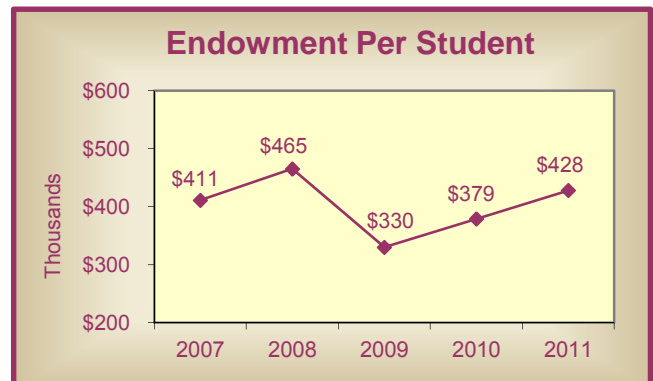
- The unit market value increased by 14.1%. Unit market value reflects general market performance after spending for operations.



- The spending rate (spending amount per unit divided by unit market value at the beginning of the year) dropped as a result of the increase in unit market value in the fiscal year 2010.

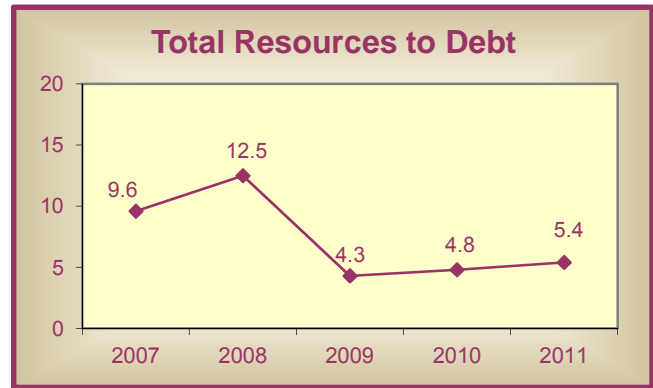


- Endowment per student increased as a result of the increase in the market value of the endowment as of June 30, 2011. Total endowment at June 30, 2011, was \$543 million.

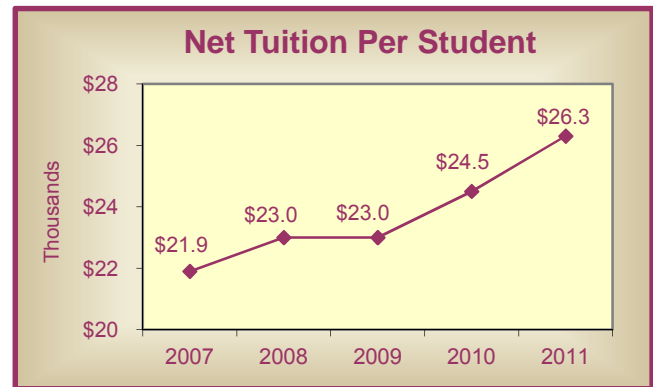


Financial Highlights

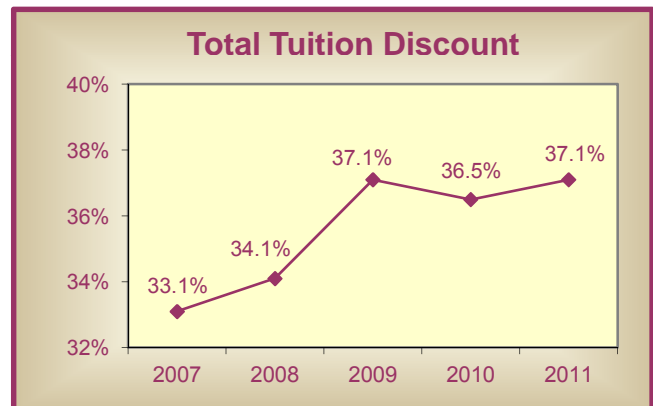
- Total resources to debt decreased in 2009 as a result of new bonds issued by the College and increased in 2010 and 2011 due to an increase in net assets. CMC's ratio of 5.4 is consistent with the 2010 median value of 5.5 for Moody's Aa small institutions (enrollments typically under 3,000 FTE).



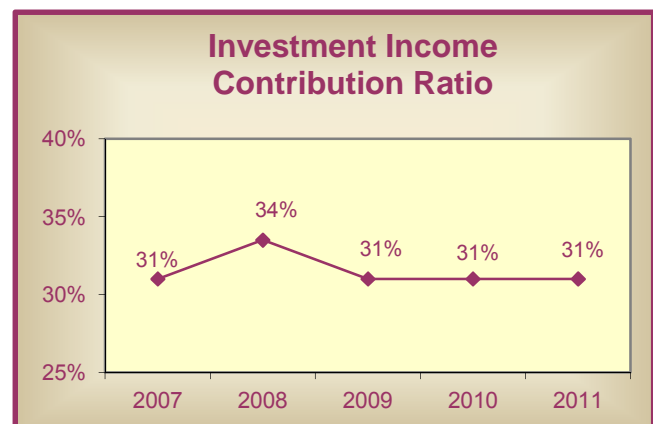
- CMC experienced growth in net tuition per student at a rate slightly lower than the rate of increase in total tuition, a direct result of an increase in the tuition discount. This dollar level places CMC higher than the 2010 median net tuition per student of \$23,866 for Moody's Aa small institutions.



- Total tuition discount (financial aid divided by tuition and fees revenues) increased due to a rise in total financial aid costs in 2011. CMC's discount is consistent with the median discount of 37.7% for Moody's Aa small institutions.

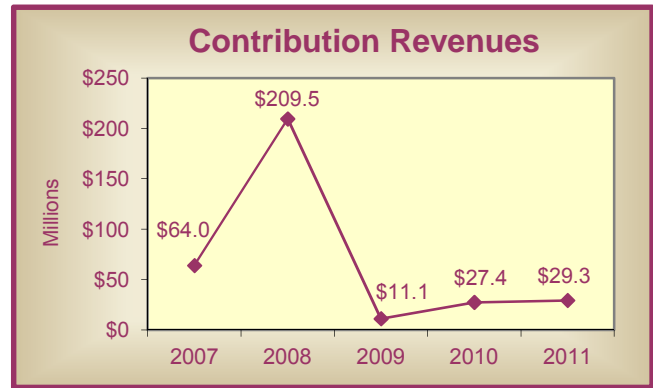


- CMC's endowment and a prudent spending policy produce sufficient investment income to make a significant contribution toward covering the operational costs of a CMC education. The investment income contribution ratio has remained consistent over the past five years.

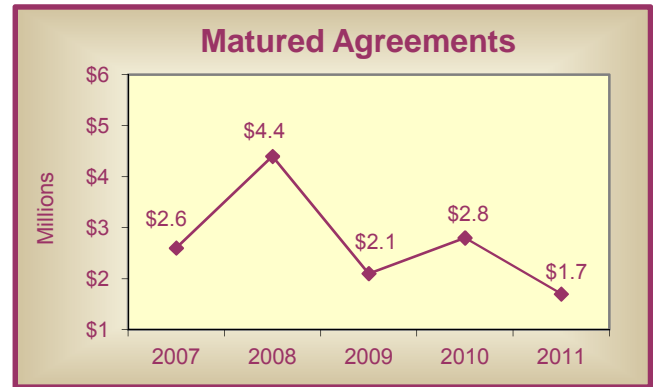


Financial Highlights

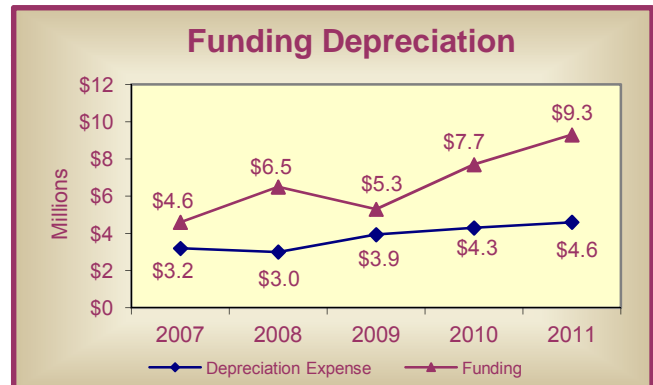
- Private gifts and grants reported by the Development Office were \$28.4 million. After actuarially adjusting the deferred gifts and adding in unconditional promises to give, contribution revenues finished the fiscal year at \$29.3 million.



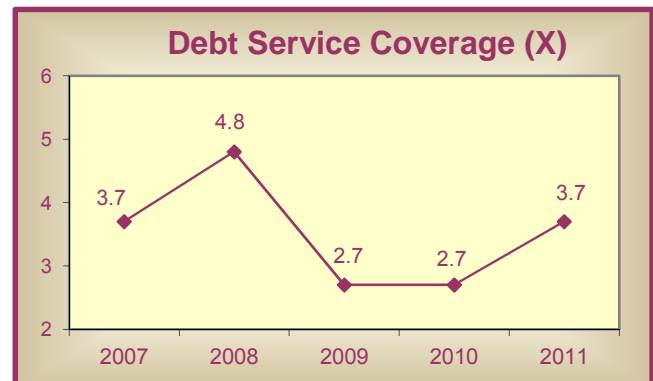
- Although unpredictable from year to year, matured annuity and life income agreements continue to provide significant resources to the College's endowment and operating funds.



- CMC continues its policy of fully funding depreciation expense. Annual set-asides 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 and improved in 2011 due to an increase in net operating revenue. CMC's ratio is slightly higher than the 2010 median value of 3.36 for Moody's Aa small institutions.





October 10, 2011

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

Ladies and Gentlemen:

The fiscal year closed on June 30, 2011, with positive momentum at Claremont McKenna College as we look to the future. After almost two full years of adjusting to the global financial setback experienced in the fall of 2008, and after extensive long-term forecasting exercises, Claremont McKenna College has been able to confirm its financial stability demonstrated through many positive highlights, both financially and operationally, in this most recent year.

The return on CMC's endowment for the year, net of fees, was 20.3%. 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 5% of the same database over the trailing five-year period. Actual returns have significantly outpaced internal targets over the past two years and, when combined with new contributions from donors, resulted in an all-time-high value for CMC's endowment investments on June 30, 2011. While this is exciting news to report, the endowment value remains behind expectations that were in place prior to 2008, and global economic concerns have again pushed public markets noticeably lower thus far in the new fiscal year. Management continues to incorporate conservative endowment return projections in the operating budget and is closely monitoring the potential effects of a further economic pullback.

A significant factor in generating the positive momentum of the College is the continued strength of recruiting and admission of new students. The average FTE undergraduate enrollment in Claremont for the fiscal year of 1,156 students slightly exceeded the budgeted target of 1,150 students. The number of applications for the newly admitted class of 2015, which completed the application process in 2010-11, significantly exceeded the prior record set in 2008-09 for the College. Of the 4,481 applications received, 13.9% were accepted (admission rate), and 49% were enrolled (yield rate), once again confirming CMC's 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 35 states and 13 foreign countries. Net tuition per student continued to increase even though the total tuition discount also increased slightly. 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 2008-09 to provide need-based financial aid packages with no student loans. 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.

The College expects to complete the campus master-planning process in the current year. Moore Ruble Yudell Architects & Planners were hired in the Spring of 2009 to lead the College through development of this new campus master plan, which was submitted to the City of Claremont to begin the formal review process at the end of the 2011 fiscal year. The entitlement process is expected to be completed in the spring of 2012. This process has actively included trustees, faculty, staff, special focus groups for students and alumni, and special outreach meetings for community members. Following completion of the Kravis Center in July 2011, 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 project is also a high priority in the current capital campaign.

Statements of Financial Position

The most significant changes in the statements of financial position are the increases in total assets directly attributed to changes in the value of investments and in plant facilities. The investment values were driven by increases in valuations of the underlying securities, while the increase in plant facilities was driven by the capital investment in the Kravis Center, as well as other smaller capital projects on the campus.

Construction of the Kravis Center was completed over the summer of 2011, and the new facility was opened to the public in July. The Kravis Center is home to four academic departments, five research institutes, the admission and financial aid offices, and several new classrooms and meeting spaces. Designed by Rafael Vinoly Architects, the Kravis Center makes a significant architectural statement and is referred to as CMC's Gateway to Leadership at the west entrance of the campus. The dedication event celebrating the most significant building project undertaken to date on CMC's campus will take place at the end of October 2011, and will honor the generosity of Mr. and Mrs. Henry Kravis. The Kravis Center was recently named the region's best overall project and the best higher education/research project by Engineering News Record (ENR) California. ENR is a well-known and highly regarded international commercial construction industry publication.

The College also undertook a major renovation of the first floor of the Marian Miner Cook Athenaeum during the summer of 2011. The Athenaeum serves as an informal meeting place for students as well as the official site for more formal gatherings for distinguished speakers who join students and faculty for dinner or lunch prior to their featured lectures. The renovation was completed in time for the start of Fall 2011 classes, and has been well received by the entire CMC community. The College is completing plans this fall for improvements to the north mall, which will provide a more beautiful and thoughtful connection from the east end of campus to the Kravis Center. The improvements to the north mall will begin in the summer of 2012.

Several smaller capital projects were undertaken during the 2011 fiscal year and over the summer of 2011. The College purchased the modular units, used as temporary relocation space during construction of the Kravis Center, to provide surge space for future renovation projects and for temporary office and storage space. In conjunction with Scripps and Pitzer Colleges, additional modular units were purchased to provide surge space for the W.M. Keck Science Department. These modular units are housed on the Pitzer College campus and costs were

Members of the Board of Trustees
October 10, 2011

shared among the three colleges participating in the Keck Science Department program. Landscape improvements were made throughout the campus over the summer to update the appearance and provide more efficient use of outdoor spaces.

Statement of Activities

The statement of activities provides greater detail of the changes in net assets during the fiscal year. Net assets increased 13.4% from the prior year, primarily driven by realized and unrealized gains, net of the approved spending allocation, on investments. Total revenues increased 5.7% from the prior year, primarily driven by net student revenues and private gifts and grants. These increases were in line with budget expectations.

The Campaign for Claremont McKenna College, which was formally launched in 2008, crossed the \$500 million mark at the end of August 2011, representing another milestone toward its \$600 million goal. This high point in CMC's capital campaign represents the largest amount raised in a campaign to date compared to all other liberal arts colleges. Student revenues, net of scholarships and grants, increased \$3 million as a result of tuition, room and board charge increases and an increase in the number of full-time equivalent undergraduate students from 1,215 in 2009-10 to 1,243 in 2010-11. Spending policy income increased by \$1.3 million from 2009-10 to 2010-11, due primarily to new endowment gifts. The spending per unit in the pooled investments fund was held flat for another year by action of the Board of Trustees, as part of the fiscal response to the investment market downturn in 2008, and as reductions in the operating budget were implemented in the prior fiscal year.

Total operating expenses increased by 3.3% from the prior year, driven primarily by an increase in instructional expenses. This increase was due to an expansion of the College's summer session program, initially launched in the summer of 2010, as well as continued growth in the Robert Day Master's program in finance, which opened in fiscal year 2008-09. The College also launched several new global education initiatives and activities during the spring and summer of 2011, coinciding with the establishment of a new Center for Global Education. These exciting new initiatives included an intensive summer school course on the topic of Jerusalem, followed by a faculty-led trip to Jerusalem; a faculty-led spring break study visit to Kuwait; a summer program in Jordan, featuring Arabic language instruction and student internships; and a joint program with Yonsei University in Seoul, South Korea, focusing on global economic challenges facing the United States and East Asia.

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 a reserve for future campus renovations and replacements. In fiscal year 2011, the trustees adopted a Guideline for Funding Capital Projects, and established a second reserve for new capital projects through this process. The College was able to add \$4.7 million to the designated reserves in addition to the amount of depreciation expense of \$4.6 million, for a total transfer of \$9.3 million to the renewal and replacement reserve for existing facilities and the reserve for new projects.

Statements of Cash Flows

Net cash flows decreased \$43,000 for fiscal year 2011. The net cash used in operating activities of \$11.2 million was offset by the net cash provided by investing activities of \$2.7 million and

Members of the Board of Trustees
October 10, 2011

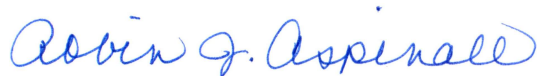
by financing activities of almost \$8.5 million, primarily from contributions restricted for the endowment. The trustees adopted a multi-tiered structure of managing cash investments based on the timeline of the expected use of cash, particularly as reserves for capital projects increase.

Summary

The positive ending to the 2011 fiscal year was a welcome result after dealing with the economic fallout of the prior two years. Planning and budgeting efforts continue to be conservative and the College was able to stay on target with its operating expenses. Investment returns exceeded earlier estimates, though we are cautious with future expectations. Contribution revenues were close to the internal targets, and the College continues to track on the final fundraising target over the remainder of the Campaign for Claremont McKenna College.

Enrollment and applications remain strong, the College remains committed to its recently adopted policy for no packaged loans to need-based students, and recent investments in the physical campus are now providing eagerly anticipated new spaces benefitting the entire campus community. The College implemented several new academic programs, including a summer session on the CMC campus, in addition to academic programs in Jordan, Kuwait, South Korea, and Jerusalem. The College's trustees and administration will carefully monitor and assess the recent downturns in the financial markets as we continue to plan for the future, keeping the forward momentum going with an eye on continued improvement in all aspects of life at Claremont McKenna College.

Respectfully submitted,



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

REPORT OF INDEPENDENT AUDITORS

To 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, 2011 and 2010, 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Los Angeles, California
October 20, 2011

**CLAREMONT MCKENNA COLLEGE
STATEMENTS OF FINANCIAL POSITION**

June 30, 2011 and 2010
(in thousands)

	2011	2010
ASSETS		
Cash	\$ 587	\$ 630
Accounts and notes receivable, net (Note 2)	17,070	17,794
Prepaid expenses and deposits	4,564	3,952
Contributions receivable, net (Note 3)	165,748	163,095
Beneficial interest in trusts (Note 3)	5,251	4,763
Investments (Note 4)	648,323	594,087
Plant facilities, net (Note 6)	174,986	137,045
Total assets	\$ 1,016,529	\$ 921,366
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 14,494	\$ 15,399
Funds held in trust for others	2,809	2,360
Deposits and deferred revenues	1,215	1,321
Staff retirement liability	1,412	2,010
Life income and annuities payable (Note 9)	41,420	40,959
Capital lease obligation (Note 7)	941	-
Bonds payable (Note 10)	138,412	139,422
Government advances for student loans	3,207	3,208
Asset retirement obligation (Note 8)	785	755
Total liabilities	204,695	205,434
 Net Assets (Note 13):		
Unrestricted	179,141	138,803
Temporarily restricted	366,117	321,119
Permanently restricted	266,576	256,010
Total net assets	811,834	715,932
 Total liabilities and net assets	 \$ 1,016,529	 \$ 921,366

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 (Note 15)	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 gain	729	-	-	729
Donor redesignations between net asset categories	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	<u>\$ 179,141</u>	<u>\$ 366,117</u>	<u>\$ 266,576</u>	<u>\$ 811,834</u>

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

CLAREMONT MCKENNA COLLEGE
STATEMENT OF ACTIVITIES

For the year ended June 30, 2010
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Student revenues	\$ 60,849	\$ -	\$ -	\$ 60,849
Less: Financial aid	(17,436)	-	-	(17,436)
Net student revenues	43,413	-	-	43,413
Private gifts and grants	3,845	12,608	10,919	27,372
Federal grants	1,695	-	-	1,695
Private contracts	644	-	-	644
Spending policy income	6,926	17,481	369	24,776
Other investment income	2,349	3	(18)	2,334
Other revenues	2,081	-	-	2,081
Release of net assets				
Restricted gifts	11,116	(9,885)	(1,231)	-
Restricted spending policy income	15,868	(15,868)	-	-
Annuity and life income	491	(491)	-	-
Total revenues	88,428	3,848	10,039	102,315
Expenses:				
Instruction	26,658	-	-	26,658
Research	5,753	-	-	5,753
Academic support	7,527	-	-	7,527
Student services	11,945	-	-	11,945
Institutional support	14,343	-	-	14,343
Auxiliary enterprises	13,916	-	-	13,916
Total expenses	80,142	-	-	80,142
Excess of revenues over expenses	8,286	3,848	10,039	22,173
Other changes in net assets:				
Realized and unrealized gains (losses), net of spending allocation	20,714	13,851	(94)	34,471
Release of net assets				
Plant facilities	165	(165)	-	-
Actuarial adjustment	-	1,757	2,370	4,127
Staff retirement plan comprehensive loss	(552)	-	-	(552)
Donor redesignations between asset categories (including UPMIFA)	(16)	(809)	825	-
Change in net assets	28,597	18,482	13,140	60,219
Net assets at beginning of year	110,206	302,637	242,870	655,713
Net assets at end of year	<u>\$ 138,803</u>	<u>\$ 321,119</u>	<u>\$ 256,010</u>	<u>\$ 715,932</u>

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

CLAREMONT MCKENNA COLLEGE

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2011 and June 30, 2010
(in thousands)

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 95,902	\$ 60,219
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	4,649	4,267
Amortization and accretion expense	40	44
Loss on disposal of plant facilities	460	120
Allowance for doubtful student loan accounts	26	12
Comprehensive (gain)/loss on staff retirement plan	(729)	552
Discount on life income contract gifts	(1,354)	(1,492)
Realized and unrealized (gain)/loss on investments	(97,191)	(68,003)
Non-cash gifts	(2,581)	(11,593)
Adjustment of actuarial liability for annuities payable	3,674	3,242
Decrease/(increase) in accounts and contributions receivable	(1,968)	12,788
Decrease/(increase) in beneficial interest in trusts	(488)	(20)
Decrease/(increase) in prepaid expenses and deposits	(612)	(618)
(Decrease)/increase in accounts payable and accrued liabilities	(905)	5,471
(Decrease)/increase in funds held in trust for others	449	285
(Decrease)/increase in deposits and deferred revenues	(106)	(63)
Contributions restricted for long-term investments	(10,630)	(13,063)
Defined benefit plan contributions over expense	131	26
Net cash (used in)/provided by operating activities	(11,233)	(7,826)
Cash flows from investing activities:		
Purchase of plant facilities	(42,109)	(29,635)
Purchases of investments	(546,646)	(539,342)
Proceeds from sales of investments	591,463	566,838
Loans made to students and employees	(1,996)	(1,603)
Collection of student and employee loans	2,010	1,909
Net cash (used in)/provided by investing activities	2,722	(1,833)
Cash flows from financing activities:		
Payments to annuity and life income beneficiaries	(2,406)	(2,789)
Investment income for annuity and life income investments	1,265	624
Principal payments for borrowings	(1,020)	(985)
Contributions restricted for life income contracts	1,623	2,129
Contributions restricted for endowment	8,300	9,481
Contributions restricted for plant expenditures and student loans	707	1,454
Increase/(decrease) in government advances for student loans	(1)	(23)
Net cash (used in)/provided by financing activities	8,468	9,891
Net (decrease)/increase in cash	(43)	232
Cash at beginning of year	630	398
Cash at end of year	<u>\$ 587</u>	<u>\$ 630</u>
Supplemental disclosure of cash flows:		
Interest paid	<u>\$ 6,899</u>	<u>\$ 6,691</u>
Supplemental disclosure of noncash financing activity:		
Capital lease obligation	<u>\$ 941</u>	<u>\$ -</u>

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

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

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.).

Reclassifications:

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

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.

Tuition and Fees:

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

Contributions:

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.

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.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

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.

Grants and Contracts:

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

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.

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, 2011 and 2010. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the investments. Because non-marketable investments are not readily marketable, the estimated value is subject to uncertainty and such differences could be material.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

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, 2011 and 2010, these cumulative gains totaled approximately \$83,698,000 and \$78,989,000, 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.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

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, 2011 and 2010. 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 4.0% to 7.5% 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, 2011 and 2010.

Use Of Estimates:

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

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

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.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010
(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 mark-to-market 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, 2011 and 2010 are as follows:

	2011	2010
Student notes receivable	\$ 12,082	\$ 12,408
Federal loan funds	2,661	2,829
Other Claremont Colleges	246	203
Student accounts	765	1,271
Grants and contracts receivable	130	350
Housing assistance notes receivable	641	161
Other	920	867
	<u>17,445</u>	<u>18,089</u>
Less allowance for doubtful accounts receivable	(375)	(295)
Net accounts and notes receivable	<u>\$ 17,070</u>	<u>\$ 17,794</u>

NOTE 3 - CONTRIBUTIONS RECEIVABLE AND BENEFICIAL INTEREST IN TRUSTS:

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions receivable are recorded after discounting to the present value of future cash flows at rates ranging from 1.8% to 5.2%.

Contributions receivable at June 30, 2011 and 2010 are expected to be realized as follows:

	2011	2010
Within one year	\$ 10,869	\$ 9,812
Between one year and five years	52,429	44,013
More than five years	186,930	200,209
	<u>250,228</u>	<u>254,034</u>
Less discount	(84,416)	(90,928)
Less allowance for doubtful contributions receivable	(64)	(11)
Net contributions receivable	<u>\$ 165,748</u>	<u>\$ 163,095</u>

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010
(in thousands)

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

Contributions receivable at June 30, 2011 and 2010 are intended for the following uses:

Endowment	\$ 107,964	\$ 105,501
Plant	5,973	5,061
Other	51,811	52,533
Net contributions receivable	<u>\$ 165,748</u>	<u>\$ 163,095</u>

At June 30, 2011 and 2010, the College had knowledge of conditional promises to give in the amount of \$5,718 and \$8,044, respectively. The promises will be recognized as revenue when the conditions are met.

At June 30, 2011 and 2010, the College held beneficial interest in outside trusts of \$5,251 and \$4,763, 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, 2011 and 2010, 90.8% and 87.9% 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, 2011 and 2010:

Unit market value at end of year	Pooled Investments Fund	
	2011	2010
	<u>\$ 575.02</u>	<u>\$ 504.07</u>
Units owned:		
Unrestricted:		
Funds functioning as endowment	217,430	211,959
Temporarily restricted:		
Annuity and life income contracts and agreements	18,708	18,955
Endowment	81,750	86,067
Total temporarily restricted	<u>100,458</u>	<u>105,022</u>
Permanently restricted:		
Endowment	644,564	626,181
College loan investments	2,693	2,848
Annuity and life income contracts and agreements	45,193	48,147
Total permanently restricted	<u>692,450</u>	<u>677,176</u>
Total units	<u>1,010,338</u>	<u>994,157</u>

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010
(in thousands)

NOTE 4 - INVESTMENTS: *Continued*

Investment income related to College investments for the years ended June 30, 2011 and 2010, net of management and custody fees of \$3,880 and \$3,936, respectively, is as follows:

	2011	2010
Amounts allocated in accordance with spending policy for pooled investments:		
Net pooled investment income	\$ 5,169	\$ 4,260
Pooled investment gains appropriated	22,718	22,396
Total spending policy income and gains	<u>27,887</u>	<u>26,656</u>
Other investment income	2,091	2,334
Less amounts allocated to annuity and life income contracts and agreements	(1,840)	(1,880)
Total investment income	<u>\$ 28,138</u>	<u>\$ 27,110</u>
Realized and unrealized gains/(losses), net of spending allocation	64,230	34,471
Total investment returns	<u><u>\$ 92,368</u></u>	<u><u>\$ 61,581</u></u>

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, 2011 and 2010:

	2011	2010
Cash equivalents	\$ 33,213	\$ 43,158
Domestic equities	169,913	130,999
International equities	136,605	92,958
Domestic treasuries	16,740	21,443
Global fixed income	47,102	69,658
High yield and bank loans	30,426	7,139
Assets whose use is limited (Note 11)	4,547	46,281
Private investments:		
Long/short equity	27,353	27,339
Absolute return funds	74,377	61,930
Private equity and venture capital	74,380	68,394
Real estate, energy, and timber	33,667	24,788
Total investments	<u><u>\$ 648,323</u></u>	<u><u>\$ 594,087</u></u>
<u>By category:</u>	<u>2011</u>	<u>2010</u>
Endowment and funds functioning as endowment:		
Pooled investments	\$ 542,670	\$ 465,863
Separately invested	566	584
Total endowment and funds functioning as endowment	<u>543,236</u>	<u>466,447</u>
Annuity and life income contracts:		
Pooled investments	\$ 36,745	\$ 33,824
Separately invested	16,307	13,928
Total annuity and life income contracts and agreements	<u>53,052</u>	<u>47,752</u>

CLAREMONT MCKENNA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010
(in thousands)

NOTE 4 - INVESTMENTS: *Continued*

Other:		
Pooled	\$ 1,549	\$ 1,435
Separately invested	50,486	78,453
Total other	<u>52,035</u>	<u>79,888</u>
Total by category	<u>\$ 648,323</u>	<u>\$ 594,087</u>

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, 2011 and 2010:

	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	<u>\$ 189,316</u>	<u>\$ 265,797</u>	<u>\$ 198,461</u>	<u>\$ 653,574</u>
	Level 1	Level 2	Level 3	2010
Cash equivalents	\$ 43,158	\$ -	\$ -	\$ 43,158
Domestic equities	63,873	67,126	-	130,999
International equities	2,928	90,030	-	92,958
Domestic treasuries	-	21,443	-	21,443
Global fixed income	53,698	15,960	-	69,658
High yield and bank loans	-	7,139	-	7,139
Assets whose use is limited	3,675	42,606	-	46,281
Private investments:				
Long/short equity	-	11,374	15,965	27,339
Absolute return	-	4,820	57,110	61,930
Private equity and venture capital	-	-	68,394	68,394
Real estate, energy, and timber	-	-	24,788	24,788
Beneficial interest in trusts	-	-	4,763	4,763
Total	<u>\$ 167,332</u>	<u>\$ 260,498</u>	<u>\$ 171,020</u>	<u>\$ 598,850</u>

CLAREMONT MCKENNA COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010
(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, 2011 and 2010:

	Long/short equity	Absolute return	Private equity & Venture capital	Real estate, energy, and timber	Beneficial Interest in Trusts	Total
Balance at July 1, 2009	\$ 13,377	\$ 30,331	\$ 55,830	\$ 19,631	\$ 4,743	\$ 123,912
Purchases	4,051	26,610	14,539	4,690	-	49,890
Sales	(2,051)	(15,295)	(19,897)	(2,359)	-	(39,602)
Transfers	-	9,326	-	914	-	10,240
Realized gain/(loss), net	-	461	2,076	496	-	3,033
Unrealized gain/(loss), net	588	5,622	12,467	802	-	19,479
Interest/dividends	-	55	3,379	614	-	4,048
Actuarial adjustment	-	-	-	-	20	20
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 June 30, 2011	\$ 15,767	\$ 69,396	\$ 74,380	\$ 33,667	\$ 5,251	\$ 198,461

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, 2011 and 2010 of \$22,962 and \$19,479, 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 out of Level 3 at the beginning of the period July 1, 2009 were due to the implementation of further guidance on accounting standards related to the ability to redeem the investments in the near term.

The following table shows the fair value, unfunded commitments and redemption restrictions for investments reported at Net Asset Value at June 30, 2011:

	Fair Value at June 30, 2011	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Domestic equities	\$ 84,223	none	30 to 90 days	7 to 30 days	(1)
International equity funds	105,869	none	15 to 90 days	7 to 60 days	(1)
Domestic treasuries	16,740	none	15 to 90 days	7 to 60 days	(1)
Global fixed income	11,972	none	7 to 10 days	7 to 10 days	(1)
High yield and bank loans	30,426	none	7 to 10 days	7 to 10 days	(1)
Long/short equity	27,353	none	qtrly to 3 years	30 to 90 days	(2)
Absolute return	74,377	\$ 1,227	qtrly to 3 years	30 to 90 days	(2)
Private equity and venture capital	74,380	22,817	1 - 15 years	none	(3)
Real estate, energy, and timber	33,667	22,731	1 - 15 years	none	(3)
Total	\$ 459,007	\$ 46,775			

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010
(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, 2011 and 2010 consists of the following:

	2011	2010
Land and land improvements	\$ 14,539	\$ 13,533
Buildings	103,679	103,679
Equipment	15,775	14,138
Equipment under capital lease	1,024	-
Property held for future use	12,276	12,676
Construction in progress	85,994	46,671
	<u>233,287</u>	<u>190,697</u>
Less accumulated depreciation	(58,301)	(53,652)
Net plant facilities	<u>\$ 174,986</u>	<u>\$ 137,045</u>

At June 30, 2011 and 2010 the amount of capitalized interest included in construction in progress was \$4,421 and \$1,615, respectively.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010
(in thousands)

NOTE 7 - CAPITAL LEASE OBLIGATION:

The College entered into capital lease commitments to finance the acquisition of computer equipment. The corresponding obligations are due in monthly and quarterly installments with maturities through June 2016.

The annual lease obligation at June 30, 2011 was as follows:

<u>Fiscal Years Ending June 30.</u>	Lease Payments
2012	\$ 226
2013	226
2014	226
2015	226
2016	123
Total payments	1,027
Less interest	(86)
Total capital lease obligation	<u>\$ 941</u>

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, 2011 and 2010:

	2011	2010
Obligations incurred	\$ -	\$ -
Obligations settled	-	-
Accretion expense	30	29
Revisions in estimated cash flows	-	-
	<u>30</u>	<u>29</u>
Beginning balance	755	726
Ending balance	<u>\$ 785</u>	<u>\$ 755</u>

NOTE 9 - LIFE INCOME AND ANNUITIES PAYABLE:

Life income and annuities payable of \$41,420 and \$40,959 at June 30, 2011 and 2010, 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, 2011 and 2010 also include \$1,061 and \$2,341, respectively, of releases to endowment within permanently restricted net assets.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010
(in thousands)

NOTE 10 - BONDS PAYABLE:

At June 30, 2011 and 2010, bonds payable was comprised of the following:

	<u>2011</u>	<u>2010</u>
Bonds issued through California Educational Facilities Authority (CEFA):		
Series 1999	\$ 7,582	\$ 8,162
Series 2003	8,435	8,660
Series 2007	39,655	39,870
Series 2009	<u>83,095</u>	<u>83,095</u>
	138,767	139,787
Unamortized discount, net	<u>(355)</u>	<u>(365)</u>
 Total bonds payable	 <u><u>\$ 138,412</u></u>	 <u><u>\$ 139,422</u></u>

The CEFA Series 1999 bonds are due in 2029. Annual installments range from \$605 in 2012 to \$500 in 2029. Interest is payable semi-annually at rates ranging from 4.5% to 5.1%, at June 30, 2011. Bonds maturing after November 1, 2013 with principal balances totaling \$5,687 are subject to mandatory redemption at prices ranging from 101% to 100%.

At June 30, 2011, the College planned to partially refund the CEFA Series 1999 bonds (Note 20).

The CEFA Series 2003 bonds are due in 2033. Annual installments range from \$230 in 2012 to \$600 in 2033. Interest is payable semi-annually at rates ranging from 3.5% to 4.75%, at June 30, 2011. Bonds maturing after January 1, 2013 with principal balances totaling \$7,965 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 \$230 in 2012 to \$3,575 in 2038. Interest is payable semi-annually at rates ranging from 3.6% to 5%, at June 30, 2011. 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.

Interest expense was \$4,173 and \$5,827 for the years ended June 30, 2011 and 2010, respectively.

The maturity of bonds payable at June 30, 2011, is as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Principal Amount</u>
2012	\$ 1,065
2013	1,110
2014	1,155
2015	1,205
2016	1,257
Thereafter	<u>132,975</u>
	<u><u>\$ 138,767</u></u>

The CEFA Series 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 \$141,466 and \$145,473 at June 30, 2011 and 2010, 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.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010
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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 \$4,547 and \$46,281, respectively, at June 30, 2011 and 2010.

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, 2011 and 2010 totaled \$3,340 and \$3,086, 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, 2011 and 2010 was \$160 and \$264, respectively. A decision was made to curtail the Plan in June, 2004. Under the curtailment, the accrued benefits earned at June 30, 2005 were frozen and no future benefits will be earned under the plan. The impact of the curtailment was a reduction to the benefit obligation. Eligible plan participants began receiving benefits under the defined contribution retirement plan in July, 2005. Additional information on the Plan can be obtained from the audited financial statements of Claremont University Consortium.

NOTE 13 - NET ASSETS:

At June 30, 2011 and 2010, net assets consists of the following:

	2011	2010
Unrestricted:		
For operations and designated purposes	\$ 899	\$ 227
Student loans	3,223	3,029
Board designated endowment funds	117,345	85,377
Plant facilities	57,674	50,170
Total unrestricted	<u>\$ 179,141</u>	<u>\$ 138,803</u>
Temporarily restricted:		
Restricted for specific purposes	\$ 72,062	\$ 68,909
Annuity and life income contracts and agreements	3,497	814
Term endowments	139,731	163,718
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:		
Without purpose restriction	13,862	10,900
With purpose restriction	136,965	76,778
Total temporarily restricted	<u>\$ 366,117</u>	<u>\$ 321,119</u>
Permanently restricted:		
Student loans	\$ 11,896	\$ 11,832
Annuity and life income contracts and agreements	11,383	9,003
Endowment	243,297	235,175
Total permanently restricted	<u>\$ 266,576</u>	<u>\$ 256,010</u>

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010
(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, 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	<u>\$ 117,345</u>	<u>\$ 290,558</u>	<u>\$ 243,297</u>	<u>\$ 651,200</u>

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

Contributions receivable, net of discount	\$ -	\$ 103,252	\$ 4,712	\$ 107,964
Investments	117,345	187,306	238,585	543,236
Total endowed equity	<u>\$ 117,345</u>	<u>\$ 290,558</u>	<u>\$ 243,297</u>	<u>\$ 651,200</u>

CLAREMONT MCKENNA COLLEGE
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010
 (in thousands)

NOTE 14 - ENDOWMENT: *Continued*

Changes in the College's endowment for the year ended June 30, 2010 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010
Investment returns:				
Earned income	\$ 4,262	\$ -	\$ 3	\$ 4,265
Change in realized and unrealized net appreciation (depreciation) of investments	42,559	13,925	(118)	56,366
Net investment return	<u>46,821</u>	<u>13,925</u>	<u>(115)</u>	<u>60,631</u>
Endowment returns reinvested (or distributed for operations)	(26,028)	1,311	282	(24,435)
Net investment returns	<u>20,793</u>	<u>15,236</u>	<u>167</u>	<u>36,196</u>
Other changes in endowed equity:				
Gifts	-	6,761	10,434	17,195
Other additions, net	5,778	(2,109)	1,376	5,045
Total other changes in endowed equity	<u>5,778</u>	<u>4,652</u>	<u>11,810</u>	<u>22,240</u>
Net change in endowed equity	26,571	19,888	11,977	58,436
Endowed equity, beginning of year	58,806	231,508	223,198	513,512
Endowed equity, end of year	<u>\$ 85,377</u>	<u>\$ 251,396</u>	<u>\$ 235,175</u>	<u>\$ 571,948</u>

At June 30, 2010, endowed equity consists of the following assets:

Contributions receivable, net of discount	\$ -	\$ 98,870	\$ 6,631	\$ 105,501
Investments	85,377	152,526	228,544	466,447
Total endowed equity	<u>\$ 85,377</u>	<u>\$ 251,396</u>	<u>\$ 235,175</u>	<u>\$ 571,948</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 \$7,681 and \$21,465 at June 30, 2011 and 2010, respectively.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010
(in thousands)

NOTE 15 - NET STUDENT REVENUES:

Student revenues for the years ended June 30, 2011 and 2010 consist of the following:

	2011	2010
Tuition and fees	\$ 52,130	\$ 47,731
Room and board	13,584	13,118
Gross student revenues	<u>65,714</u>	<u>60,849</u>
Less financial aid:		
Sponsored	(11,463)	(11,167)
Un-sponsored	(7,888)	(6,269)
Total financial aid	<u>(19,351)</u>	<u>(17,436)</u>
Net student revenues	<u>\$ 46,363</u>	<u>\$ 43,413</u>

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

NOTE 16 - INSTITUTIONAL SUPPORT FUND RAISING EXPENSE:

Included in Institutional Support expenses are \$4,025 and \$4,349 of expenditures related to fundraising for the years ended June 30, 2011 and 2010, 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, 2011 and 2010 totaled \$4,703 and \$4,618, 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, 2011 and 2010 totaled \$33,222 and \$37,542, respectively.

The College receives contributions and promises to give from members of the Board of Trustees. For the year ended June 30, 2011 and 2010, the College received \$8,848 and \$3,588, respectively, of total contribution revenue from members of the Board of Trustees. At June 30, 2011 and 2010, contributions receivable from members of the Board of Trustees totaled \$157,855 and \$153,246, respectively.

CLAREMONT MCKENNA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

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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.

In July 2011, the College completed a new municipal bond financing through the California Educational Facilities Authority (CEFA) in the par amount of \$5,480. Proceeds from the bonds will be placed in an irrevocable trust to provide for the partial refunding of \$5,690 par value of CEFA 1999 Series bonds and to pay costs associated with the bond issuance.

Subsequent events have been evaluated through October 20, 2011 which corresponds to the date when the financial statements are available for issuance.



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