Claremont McKenna College

2019–2020 Financial Report

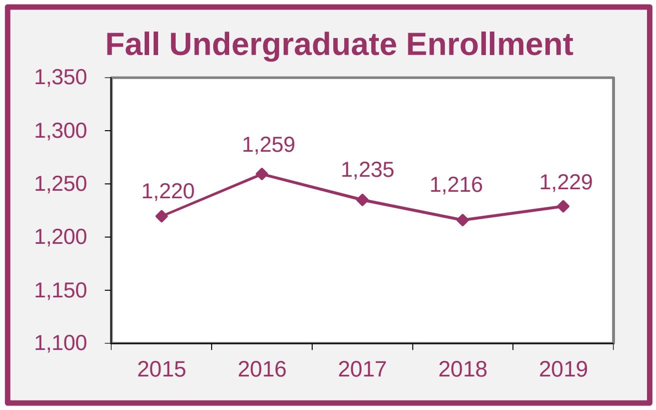
CLAREMONT MCKENNA COLLEGE
ANNUAL FINANCIAL REPORT

2020 and 2019

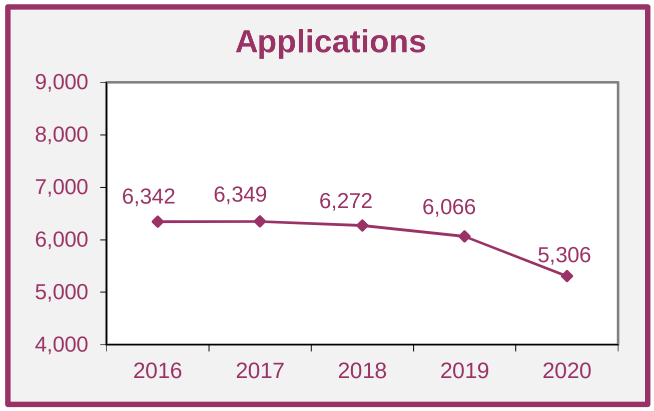
CONTENTS

Financial Highlights

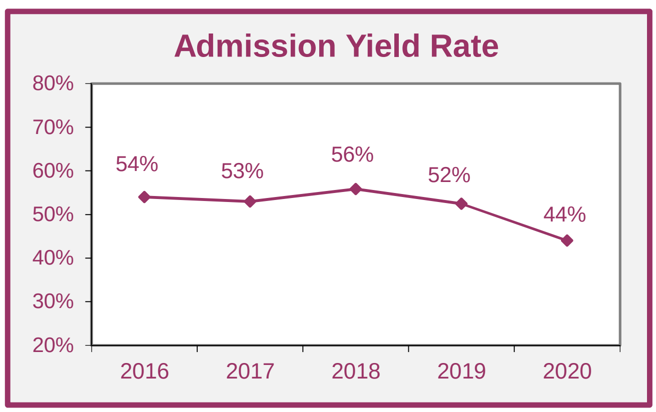
- Fall 2019 FTE enrollment in Claremont was in line with the College's target of 1,220. FTE enrollment, including off-campus and study-abroad programs, was 1,321.



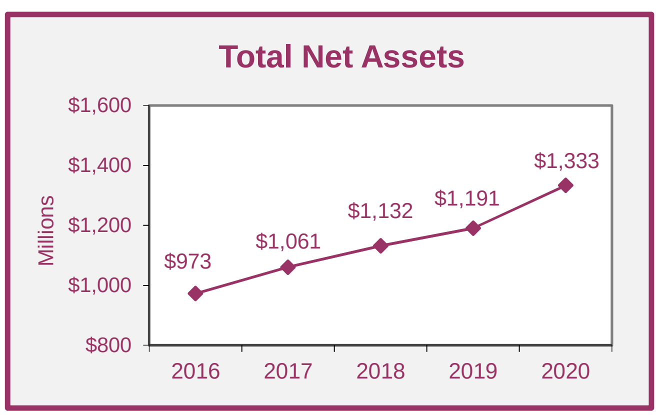
- Applications for admission in the Fall of 2020 declined by 13% to 5,306. The College's selectively rate for freshman admission (acceptances divided by total applications) remained low at approximately 13%.



- The overall yield rate declined to 44% for the Fall of 2020 primarily due to the impact of the global pandemic. The total number of new first years entering the College in the Fall of 2020 was 315 students.

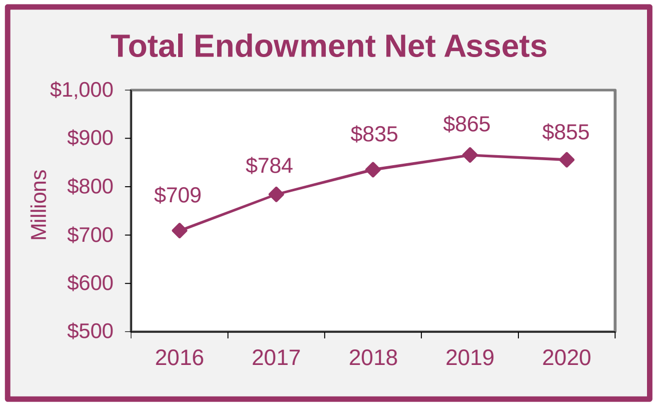


- Total net assets increased by 11.9%, primarily driven by strong growth in contributions receivable.

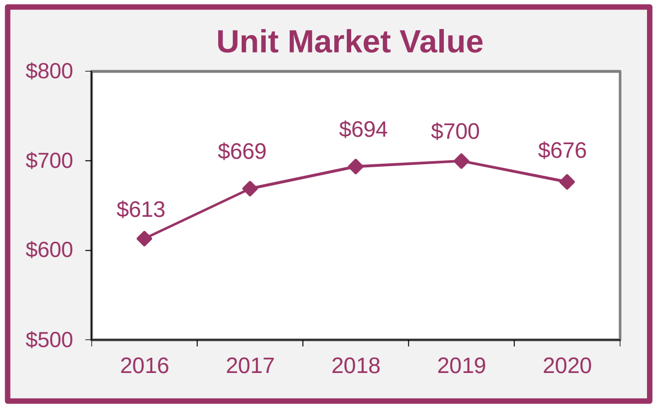


Financial Highlights

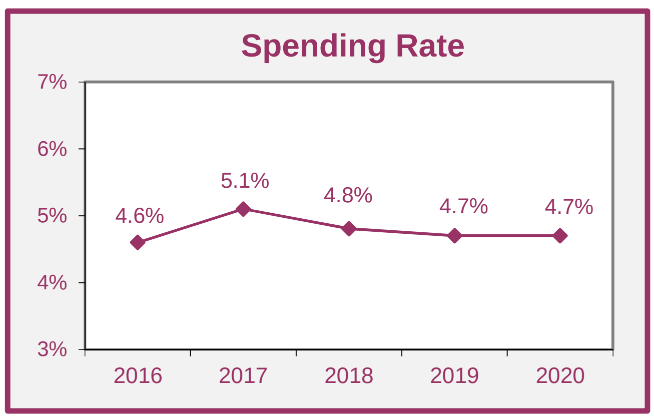
- Total endowment net assets decreased slightly by -1.2% in 2020, after fees and spending for operations. The net decrease was primarily attributed to returns distributed for operations.



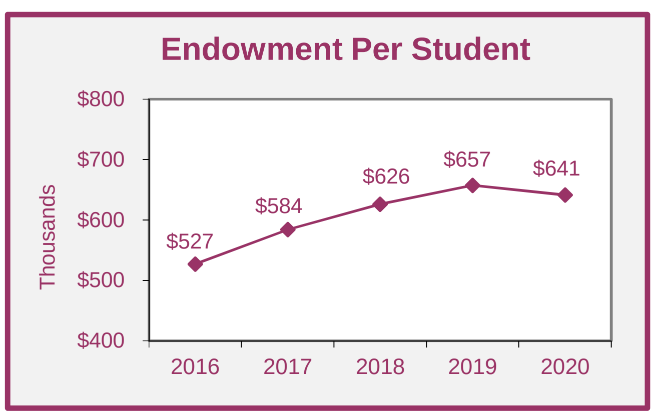
- The market value per unit in the College's investment pool decreased by -3.4%. Unit market value reflects general market performance after spending for operations.



- The spending rate (spending amount per unit divided by unit market value at the beginning of the year) remained flat in fiscal year 2020. This was a result of a slight increase in the beginning unit market value, offset by growth in the spending amount per unit.

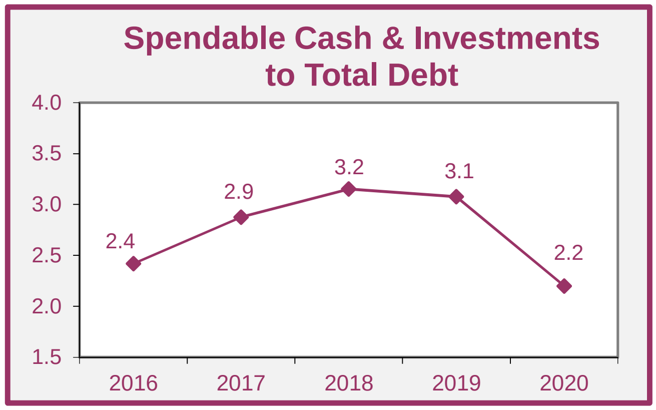


- Endowment per student decreased slightly as a result of the decreased market value of the endowment as well as a small increase in total in-Claremont enrollment.

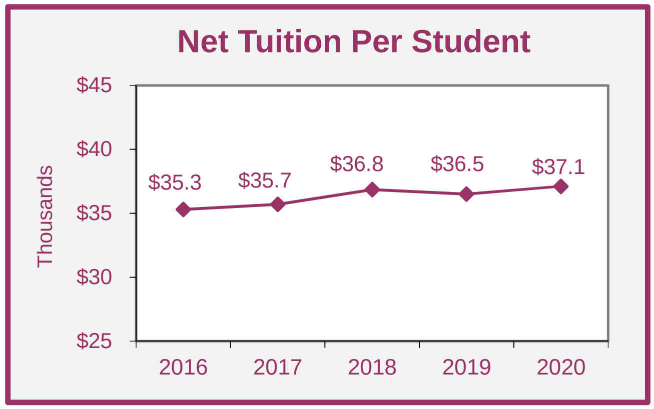


Financial Highlights

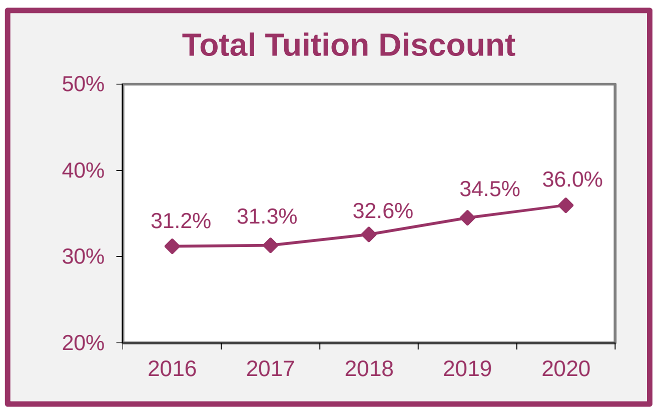
- Total spendable cash and investments to debt decreased as a result of new bonds issued by the College. The College's ratio of 2.2 is slightly lower than the 2019 median value of 3.73 for Moody's Aa private institutions. Moody's assigned a rating of Aa3 to CMC's Series 2019 Taxable Bonds.



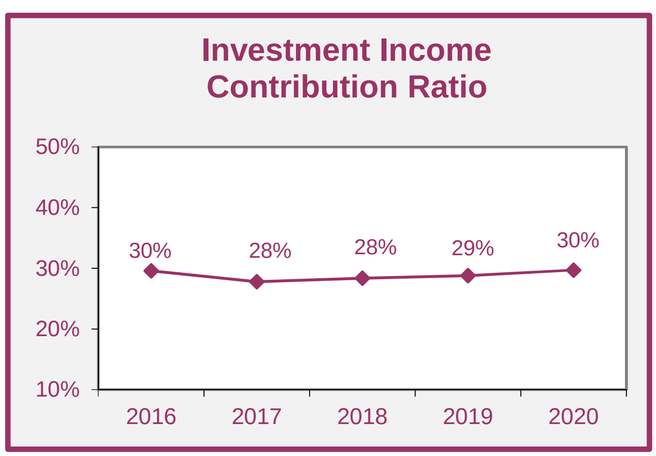
- The College's net tuition per student increased despite an increase in the total tuition discount. This dollar level places CMC higher than the 2019 median net tuition per student of $31,803 for Moody's Aa private institutions.



- The total tuition discount (financial aid divided by tuition and fees revenues) increased slightly as part of a planned multi-year expansion. CMC's discount is lower than the 2019 median discount of 38.3% for Moody's Aa private institutions.

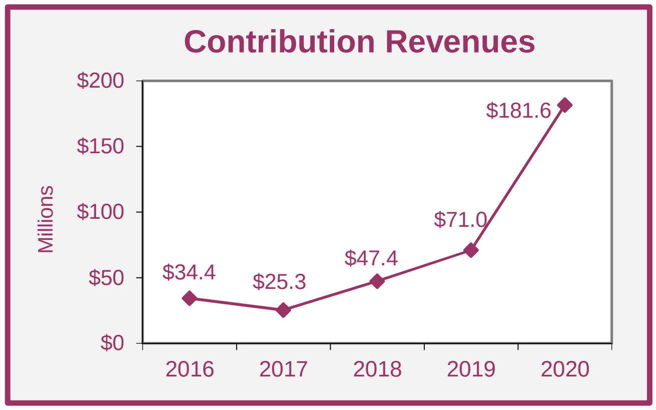


- CMC's endowment and a prudent spending policy produce sufficient investment income to make a significant contribution toward covering the operational costs of a CMC education. The investment income contribution ratio has experienced a slight increase over the past four years due primarily to new gifts to endowment.

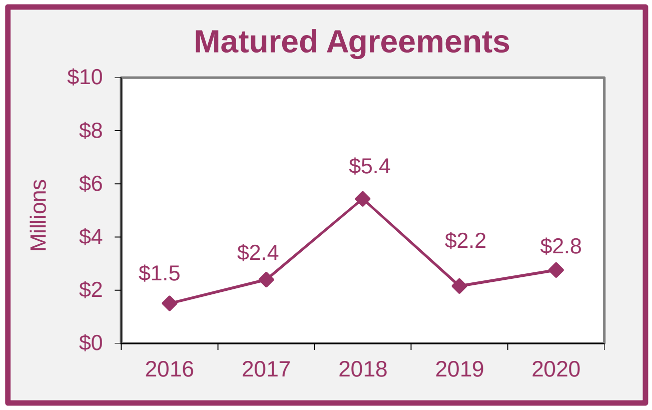


Financial Highlights

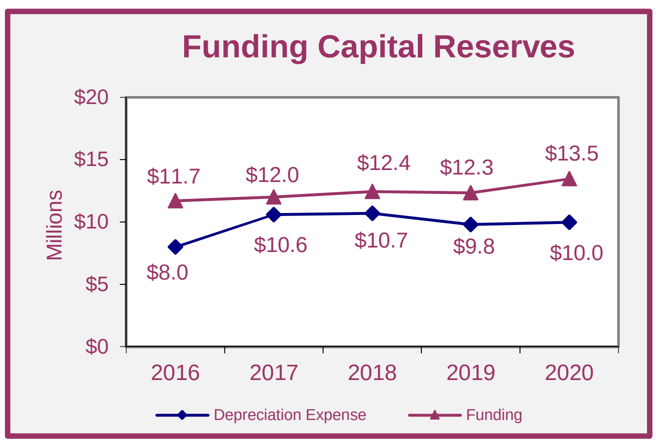
- Total contribution revenues were exceptional at $181.6 million, primarily due to a large contribution receivable received during the year towards the College's top institutional priorities and campaign goals.



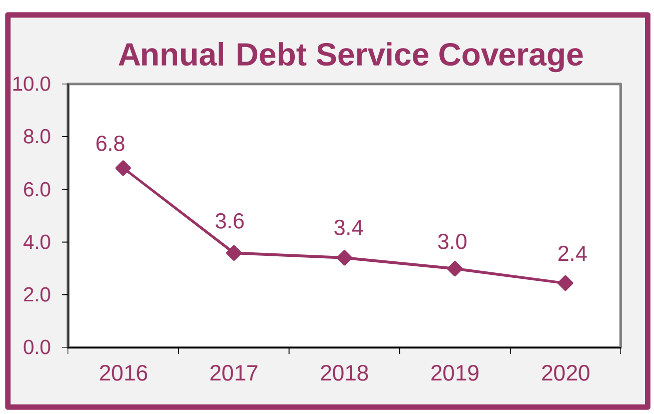
- Although unpredictable from year to year, matured annuity and life income agreements continue to provide significant resources to the College's endowment and operating funds.



- CMC continued its policy of funding capital reserves for repairs, life cycle replacements, and modernization of facilities in 2020. The calculation of annual set-asides into capital reserves is based on future anticipated replacement values. The funding of capital reserves has exceeded the amount of depreciation recorded in the financial statements over the past several fiscal years.



- Annual debt service coverage (the ability to make debt service payments from annual operations) decreased in 2020 due to new debt issued during the year. Debt service coverage decreased in 2017 due to a debt restructuring which increased annual debt service. CMC's ratio is lower than the median value of 3.12 for Moody's Aa private institutions.



CLAREMONT McKENNA COLLEGE

Office of the Treasurer

October 22, 2020

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

Dear Members of the Board:

Fiscal year 2019-20 was a turbulent year for the College due to the sudden transition to online instruction in the Spring. CMC's long-standing practice of budgeting a contingency reserve equal to 2-3% of core operating revenues proved critical to ending the year at a breakeven level within the core operating budget. Despite the large financial burden incurred due to refunded room and board fees as well as the cost of transitioning students off-campus, fundraising was exceptional during the year. This was driven by a large multi-year pledge received in furtherance of the integrated sciences initiative. Total net assets without donor restriction grew by 2.4%, ending the year at $336 million. Total net assets grew by 11.9%, ending the year at $1.3 billion.

In typical CMC fashion, the College's leadership and broader community responded to the challenges posed by COVID-19 with creativity and determination. A special ad hoc Board Committee on COVID-19 was formed to analyze and plan for the effects of the pandemic on the College in both the current and future years. As a result of the work of the ad hoc Committee, the faculty, the staff, and the full Board of Trustees, the College developed comprehensive plans for robust health and safety measures, reimagined student engagement, innovative curricular designs, and financial mitigation.

The College welcomed another outstanding incoming class in Fall of 2020, composed of 315 first-year and 21 transfer students hailing from 33 states and 22 countries. The College continues to be one of the most selective liberal arts institutions in the country, with an admit rate of 13% for Fall of 2020. The College's yield rate of 44% of admitted students was slightly lower than prior years due to an increase in students who chose to defer their admission to a future term. Students who defer their admission to a future term are not counted in the yield rate.

Total student enrollment in Fall 2020 was 1,247, consistent with the College’s budgeted target enrollment. Budgeted enrollment was lowered by approximately 6% in fiscal year 2020-21 compared with fiscal year 2019-20, in response to international travel restrictions and other challenges posed by the global pandemic. Enrollment in prior years also included a higher number of students participating in study abroad and off-campus programs. Participation in study abroad programs contracted in Fall 2020 due the cancellation of most programs. Room and board income for 2020-21 was significantly reduced due to State and County restrictions on reopening the residential campus in Fall 2020. The College remains committed to and continues to strengthen plans for reopening the residential campus in Spring 2021, subject to State and County authorization to reopen.

Consolidated Statements of Financial Position

Assets were up dramatically this year for two reasons. First, the College received a sizable contribution receivable payable over multiple years in support of integrated sciences. Second, investment assets grew by approximately $162 million primarily due to unspent bond proceeds that are being invested until they are spent down over the next several years. Financial markets were volatile in 2019-20 and the College ended the year with realized and unrealized investment losses, net of spending distributions, of $25.5 million. The market value of the endowment as of June 30, 2020 was slightly lower than the prior year at $855 million. CMC's endowment portfolio returned a positive 1.9%, net of investment management fees, for the 1-year period ending June 30, 2020. This was in line with the portfolio's 1.9% policy custom benchmark return over the same period. The endowment 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% per year provided that the resulting increase falls within a collar of 4.5% to 5.5% of a twenty-quarter average unit market value. The spending rate for fiscal year 2019-20 was 4.7%, calculated by dividing the formula-based spending per unit by the beginning market value of a unit in the investment pool. The rate is consistent with the portfolio’s 5-year average spending rate of 4.7%. Investment income, in the form of spending distributions from the endowment, contributed approximately 30% toward funding the College’s operating expenses.

Changes to plant facilities assets were modest during the year with approximately $10 million of assets placed into service, including the purchase of 8 acres of land along the east border of CMC's campus. The purchase is consistent with the College's campus master plan and intended to eventually house CMS athletic fields. Perimeter improvements to the land are planned over the next 1-2 years. The College continued its practice of annual set-asides to capital reserves to fund future renovations, repairs, and maintenance of facilities. Total funding of capital reserves during 2019-20 was $13.5 million versus total annual depreciation expense of $10 million.

Bonds and notes payable increased from the prior year due to the issuance of $225 million of 30-year taxable bonds at a rate of 3.38% in December 2019. CMC generated net present value (NPV) savings of $4.8 million from refunding $66.9 million of existing bonds. At the same time, the College generated $157.2 million in new monies to bridge finance fundraising for multiple important capital projects on the horizon, including a new integrated sciences building and east campus development plans. The increase in outstanding debt had a negative impact on CMC’s total spendable cash and investments to total debt ratio which decreased from 3.1 to 2.2 times. CMC’s annual debt service coverage ratio (a measure of the ability to make debt service payments from annual operations) decreased from 3.0 to 2.4 times as of June 30, 2020.

Consolidated Statements of Activities

The statement of activities provides greater detail of the changes in net assets during the fiscal year. Total revenues increased by 61%, led primarily by increases in private gifts and grants with donor restrictions related to multi-year pledges. Total revenues without donor restrictions declined by 2% primarily due to the loss of room and board revenue in the last quarter of fiscal year 2019-20. Total expenses increased by 2% over the prior year with varying degrees of changes in individual functional expense line items. The most significant changes in operating expenses related to transitioning faculty, students, and staff to an online instructional environment.

Total net student revenues (gross student revenues less financial aid) declined by 4% due to room and board revenue losses. Focusing only on tuition, net tuition per student increased by 1.6% in 2019-20 despite a planned increase in the discount rate (defined as financial aid as a percentage of tuition and fees) which moved from 34.5% in 2018-19 to 36% in 2019-20. The increase in net tuition per student is largely due to the 2019-20 tuition increase. Tuition, room, board and fee charges have been held flat for the 2020-21 fiscal year. CMC continues to maintain a need-blind admission policy and meet-all-need financial aid policy, and College affordability remains a top institutional priority. To mitigate COVID-19 impacts on students and families, the College increased financial aid in 2020-21. This included providing off-campus room and board support for students on financial aid as well as support for technology, books, and other needs. CMC also replaced the standard student contribution typically earned through summer work with institutional grants.

The College received approximately $182 million in contributions during the year, which exceeded the fundraising goals set by the Advancement Office. Private gifts and grants reported on the Consolidated Statements of Activities incorporates actuarial adjustments for planned gifts as well as approximately $138 million in revenue related to net additional contributions receivable, recognized at present value. Spending policy income increased 3% due to the spending policy formula increase as well as incremental gifts to the endowment, including subsequent payments on prior year pledges.

Within the net assets without donor restrictions category, prior to other changes in net assets, CMC ended the year with a positive excess of revenues over expenses of $6.7 million. After incorporating other changes in net assets such as unrealized and realized gains and losses, CMC had a positive excess of revenues over expenses of $7.9 million.

Consolidated Statements of Cash Flows

Net cash flows decreased by $249,000 in fiscal year 2019-20. The net cash used in operating activities of $35 million and net cash used in investing activities of $131 million was partially offset by net cash provided by financing activities of $165 million. Net cash provided by financing activities was influenced by proceeds from the College's bond offering in December 2019. 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 22, 2020

Summary

Despite the major disruptions to on-campus operations during 2019-20, CMC finished the year in a stable financial position, in large part through the extraordinary support and investment by alumni, donors, and trustees in CMC's vision. Looking to the year ahead, the College has re-examined priorities to focus on achieving our mission while utilizing resources in the most effective way possible. As part of its planning, the College implemented a wide array of cost-cutting measures, including responsible limits on hiring and salaries, targeted reductions in operating budgets, reductions in executive salaries, and reductions in retirement benefits. The status of the pandemic and the related restrictions on operations are fluid and difficult to predict. We will continue to adapt our planning with the goal of promoting financial resilience during this extraordinary moment in CMC's story.

Respectfully submitted,

Erin Watkins
Associate Vice President for Finance and Acting Treasurer

MOSSADAMS

Report of Independent Auditors

To the Board of Trustees
Claremont McKenna College and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Claremont McKenna College and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Claremont McKenna College and Subsidiaries as of June 30, 2020 and 2019, and the change 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Claremont McKenna College and Subsidiaries adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The ASU has been applied on a modified prospective basis to all agreements not completed as of July 1, 2019, or entered into after July 1, 2019. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Los Angeles, California
October 22, 2020

June 30, 2020 and 2019
(in thousands)

	2020	2019
ASSETS		
Cash	$ 889	$ 1,138
Accounts and notes receivable, net (Note 2)	13,986	13,424
Prepaid expenses and deposits	5,190	5,920
Contributions receivable, net (Note 3)	281,524	143,883
Beneficial interest in trusts (Note 3)	1,042	423
Investments (Note 4)	1,543,282	1,323,325
Plant facilities, net (Note 6)	281,801	284,700
Total assets	2,127,714	1,772,813
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 16,913	$ 15,152
Funds held in trust for others (Note 9)	322,041	331,274
Deposits and deferred revenues	3,926	2,313
Life income and annuities payable	57,268	47,704
Liabilities associated with investments	57,315	-
Capital lease obligation (Note 7)	930	990
Bonds and note payable (Note 10)	334,792	182,569
Government advances for student loans	649	848
Asset retirement obligation (Note 8)	921	885
Total liabilities	794,755	581,735
Net Assets (Note 12):		
Without donor restriction	335,801	327,891
With donor restriction	997,158	863,187
Total net assets	1,332,959	1,191,078
Total liabilities and net assets	$ 2,127,714	$ 1,772,813

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

CLAREMONT MCKENNA COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2020
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Net student revenues (Note 15)	$ 64,249	$ -	$ 64,249
Private gifts and grants	4,789	176,780	181,569
Federal grants	2,596	-	2,596
Private contracts	456	-	456
Spending policy income	11,942	30,395	42,337
Other investment income, net	3,229	486	3,715
Other revenues	2,871	-	2,871
Release of net assets			
Restricted gifts	21,891	(21,891)	-
Restricted spending policy income	23,607	(23,607)	-
Annuity and life income	1,591	(1,591)	-
Total revenues	137,221	160,572	297,793
Expenses:			
Instruction	43,795	-	43,795
Research	10,934	-	10,934
Academic support	8,303	-	8,303
Student services	22,249	-	22,249
Institutional support	23,262	-	23,262
Auxiliary enterprises	21,979	-	21,979
Total expenses	130,522	-	130,522
Excess of revenues over expenses	6,699	160,572	167,271
Other changes in net assets:			
Realized and unrealized losses, net of spending allocation	(1,585)	(23,875)	(25,460)
Gain on disposition of property	1,716	-	1,716
Gain on bond defeasance	535	-	535
Realized losses on contributions receivable	-	(258)	(258)
Release of net assets for plant facilities	2,006	(2,006)	-
Transfers to other Claremont Colleges	(19)	-	(19)
Actuarial adjustment	4	(1,908)	(1,904)
Donor redesignations between net asset classes	(1,446)	1,446	-
Change in net assets	7,910	133,971	141,881
Net assets at beginning of year	327,891	863,187	1,191,078
Net assets at end of year	$ 335,801	$ 997,158	$ 1,332,959

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

CLAREMONT MCKENNA COLLEGE
CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2019
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Net student revenues (Note 15)	$ 66,903	$ -	$ 66,903
Private gifts and grants	3,819	67,148	70,967
Federal grants	1,147	-	1,147
Private contracts	780	-	780
Spending policy income	10,530	29,041	39,571
Other investment income, net	1,816	(29)	1,787
Other revenues	3,365	-	3,365
Release of net assets			
Restricted gifts	26,684	(26,684)	-
Restricted spending policy income	24,424	(24,424)	-
Annuity and life income	658	(658)	-
Total revenues	140,126	44,394	184,520
Expenses:			
Instruction	42,011	-	42,011
Research	9,826	-	9,826
Academic support	9,039	-	9,039
Student services	23,033	-	23,033
Institutional support	22,410	-	22,410
Auxiliary enterprises	21,150	-	21,150
Total expenses	127,469	-	127,469
Excess of revenues over expenses	12,657	44,394	57,051
Other changes in net assets:			
Realized and unrealized gains, net of spending allocation	3,115	5,629	8,744
Realized losses on contributions receivable	-	(4,550)	(4,550)
Release of net assets for plant facilities	387	(387)	-
Transfers to other Claremont Colleges	(2,811)	-	(2,811)
Actuarial adjustment	(32)	807	775
Donor redesignations between net asset categories	(1,171)	1,171	-
Change in net assets	12,145	47,064	59,209
Net assets at beginning of year	315,746	816,123	1,131,869
Net assets at end of year	$ 327,891	$ 863,187	$ 1,191,078

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

CLAREMONT MCKENNA COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended June 30, 2020 and 2019
(in thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 141,881	$ 59,209
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	9,993	9,794
Amortization and accretion expense	(396)	(570)
Gain on disposal of plant facilities	(1,716)	-
Gain on debt defeasance	(535)	-
Increase (decrease) in beneficial interest in trusts	(619)	1
Allowance for doubtful accounts	(11)	264
Discount on life income contract gifts	11,802	2,600
Realized and unrealized gains on investments	(16,841)	(53,754)
Non-cash gifts	(10,089)	(1,785)
Contributions restricted for long-term investments	(16,253)	(21,588)
Adjustment of actuarial liability for annuities payable	506	(624)
Increase in accounts and contributions receivable	(147,179)	(23,824)
Decrease in prepaid expenses and deposits	730	473
Increase in accounts payable and accrued liabilities	1,760	1,554
(Decrease)/increase in funds held in trust for others	(9,233)	10,872
Increase in deposits and deferred revenues	1,613	302
Net cash used in operating activities	(34,587)	(17,076)
Cash flows from investing activities:		
Purchase of plant facilities	(9,944)	(8,467)
Proceeds from sales of plant facilities	4,566	-
Purchases of investments	(1,656,891)	(1,018,791)
Proceeds from sales of investments	1,471,025	1,031,005
Increase in liabilities associated with investments	60,000	-
Loans made to students and employees	(935)	(1,163)
Collection of student and employee loans	1,479	1,890
Net cash (used)/provided by investing activities	(130,700)	4,474
Cash flows from financing activities:		
Payments to annuity and life income beneficiaries	(6,174)	(6,024)
Investment income for annuity and life income investments	2,029	1,896
Proceeds from bonds and notes payable	158,817	-
Debt issuance costs	(1,211)	-
Principal payments for bonds and notes payable	(4,478)	(4,543)
Contributions restricted for life income contracts	6,576	2,380
Contributions restricted for endowment	6,360	16,050
Contributions restricted for plant expenditures and student loans	3,317	3,158
Decrease in government advances for student loans	(198)	(85)
Net cash provided by financing activities	165,038	12,832
Change in cash	(249)	230
Cash at beginning of year	1,138	908
Cash at end of year	$ 889	$ 1,138

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

June 30, 2020 and 2019
(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.

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

Basis of Presentation:
The accompanying consolidated 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. GAAP).

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.

Revenue Recognition:
Student tuition and fees 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 customer.

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 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.

June 30, 2020 and 2019
(In thousands)

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 net assets without donor restriction. 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 generally 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.

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:

	2020	2019
Cash paid for interest	$ 7,025	$ 7,597
Capital assets acquired by capital lease	400	308
Transfer of securities recorded in funds held in trust for others	-	299,806

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.

Risks and Uncertainties:
In March 2020, the World Health Organization declared COVID-19, the novel coronavirus, a global pandemic. COVID-19 has caused significant volatility and disruption to the global economy. Management has been closely monitoring the effect of COVID-19 on the College's operations, students and employees. The College has transitioned instruction and the majority of its workforce to a remote environment, until local health officials permit in-person instruction. The duration and impact of COVID-19 on the College is unknown.

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 4.9%. 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.

June 30, 2020 and 2019
(In thousands)

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

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, 2020 and 2019. 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.

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

June 30, 2020 and 2019
(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, 2020 and 2019. 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.

Assets Held in Trust for Others:
Funds held in trust for others consists of 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.

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 1.2% to 7.6% and over estimated lives according to the IRS Annuity 2000 Mortality Tables.

The College is subject to additional legally mandated annuity reserve requirements by the State of California on its California gift annuity contracts. On December 2, 1998, the Insurance Commission Chief Counsel granted the College permission to invest its reserves for California annuities pursuant to Insurance Code Section 11521.2(b). This approval is subject to the following conditions: (1) maintain a nationally recognized statistical organization bond rating of "A" or better and (2) maintain an endowment to gift annuity ratio of at least 10:1.

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, recorded in investments, of $92,000 were provided at June 30, 2020 to collateralize securities sold short.

Income Taxes:
The College had no unrecognized tax benefits and/or obligations at June 30, 2020 and 2019.

June 30, 2020 and 2019
(In thousands)

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

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 U.S. 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. 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 are 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 and certain global fixed income and global developed 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 are 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.

June 30, 2020 and 2019
(In thousands)

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

Fair Value of Financial Instruments: *Continued*
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 U.S. 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 prior year amounts have been reclassified for consistency with current year presentations.

New Accounting Pronouncements:
In 2020, the College adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. There was no material impact to the financial statements as a result of adoption. The ASU is applied on a prospective basis, with no effect on net assets or previously issued financial statements.

NOTE 2 - ACCOUNTS AND NOTES RECEIVABLE:

Accounts and notes receivable at June 30, 2020 and 2019 are as follows:

	2020	2019
Student notes receivable	$ 6,740	$ 7,023
Federal loan funds	527	741
Other Claremont Colleges	1,381	871
Student accounts receivable	643	247
Grants and contracts receivable	432	402
Housing assistance notes receivable	3,533	3,578
Other	1,686	1,528
	14,942	14,390
Less allowance for doubtful accounts receivable	(956)	(966)
Net accounts and notes receivable	$ 13,986	$ 13,424

June 30, 2020 and 2019
(In thousands)

NOTE 3 - CONTRIBUTIONS RECEIVABLE AND BENEFICIAL INTEREST IN TRUSTS:

Contributions receivable at June 30, 2020 and 2019 are expected to be realized as follows:

	2020	2019
Within one year	$ 32,007	$ 25,472
Between one year and five years	98,949	83,202
More than five years	234,766	53,046
	365,722	161,720
Less discount	(84,062)	(17,236)
Less allowance for doubtful contributions receivable	(136)	(601)
Net contributions receivable	$ 281,524	$ 143,883

Contributions receivable at June 30, 2020 and 2019 are intended for the following uses:

	2020	2019
Endowment	$ 96,704	$ 46,446
Plant	35,424	36,512
Other	149,396	60,925
Net contributions receivable	$ 281,524	$ 143,883

At June 30, 2020 and 2019, 93% and 84.3% of contributions receivable were due from four donors, respectively.

At June 30, 2020 and 2019, the College had knowledge of conditional promises to give in the amount of $21,827 and $22,908, respectively. The promises will be recognized as revenue when the conditions are met.

Conditional promises to give at June 30, 2020 and 2019, are intended for the following uses:

	2020	2019
Endowed chairs for new and existing faculty positions	$ 1,088	$ 1,142
Scholarship endowments	589	-
Academic programing and support	20,000	20,000
General purposes of the College	150	1,766
Total conditional promises to give	$ 21,827	$ 22,908

At June 30, 2020 and 2019, the College held beneficial interest in outside trusts of $1,042 and $423, 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 fair 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 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. Periodic adjustments to the beneficial interest to reflect changes in the fair value, life expectancy, and discount rate are recognized as actuarial gains or losses. The discount rates used are commensurate with the risks associated with the contribution.

June 30, 2020 and 2019
(In thousands)

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, 2020 and 2019:

	2020	2019
Cash equivalents	$ 134,225	$ 50,284
Cash equivalents - limited use (Note 12)	6,287	3,292
Global developed equity	544,061	549,040
Domestic treasuries	168,089	117,683
Global fixed income	89,280	81,852
Private investments:		
Long/short equity	104,400	99,152
Absolute return funds	108,602	90,331
Private equity and venture capital	331,549	268,727
Real estate, energy, and timber	56,789	62,964
Total investments	$ 1,543,282	$ 1,323,325

June 30, 2020 and 2019
(In thousands)

NOTE 5 - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS:

The following table presents the investments and beneficial interest in trusts carried on the Statements of Financial Position by level within the valuation hierarchy at June 30, 2020 and 2019:

	Level 1	Level 2	Level 3	Assets Held at NAV or Equivalent	2020
Financial Assets:					
Cash equivalents	$ 134,225	$ -	$ -	$ -	$ 134,225
Cash equivalents - limited use	6,287	-	-	-	6,287
Global developed equity	59,026	-	-	485,035	544,061
Domestic treasuries	-	168,089	-	-	168,089
Global fixed income	4,310	-	-	84,970	89,280
Private investments:					
Long/short equity	-	-	-	104,400	104,400
Absolute return	-	-	-	108,602	108,602
Private equity and venture capital	-	-	-	331,549	331,549
Real estate, energy, and timber	-	-	1,803	54,986	56,789
Beneficial interest in trusts	-	-	1,042	-	1,042
Total financial assets at fair value	$ 203,848	$ 168,089	$ 2,845	$ 1,169,542	$ 1,544,324
Financial Liabilities:					
Funds held in trust for others	$ -	$ 319,343	$ -	$ -	$ 319,343
Liabilities associated with investments:					
Securities sold short	-	57,315	-	-	57,315
Total financial liabilities	$ -	$ 376,658	$ -	$ -	$ 376,658

	Level 1	Level 2	Level 3	Assets Held at NAV or Equivalent	2019
Financial Assets:					
Cash equivalents	$ 50,284	$ -	$ -	$ -	$ 50,284
Cash equivalents - limited use	3,292	-	-	-	3,292
Global developed equity	106,811	-	-	442,229	549,040
Domestic treasuries	-	117,683	-	-	117,683
Global fixed income	3,986	-	-	77,866	81,852
Private investments:					
Long/short equity	-	-	-	99,152	99,152
Absolute return	-	-	-	90,331	90,331
Private equity and venture capital	-	-	-	268,727	268,727
Real estate, energy, and timber	-	-	1,510	61,454	62,964
Beneficial interest in trusts	-	-	423	-	423
Total financial assets at fair value	$ 164,373	$ 117,683	$ 1,933	$ 1,039,759	$ 1,323,748
Financial Liabilities:					
Funds held in trust for others	$ -	$ 328,459	$ -	$ -	$ 328,459

June 30, 2020 and 2019
(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, 2020 and 2019:

	Real Estate	Beneficial Interest in Trusts	Total
Balance at June 30, 2018	$ 1,470	$ 424	$ 1,894
Purchases	790	-	790
Sales	(750)	-	(750)
Realized loss, net	-	-	-
Actuarial adjustment	-	(1)	(1)
Balance at June 30, 2019	1,510	423	1,933
Purchases	1,352	634	1,986
Sales	(790)	-	(790)
Realized loss, net	(269)	-	(269)
Actuarial adjustment	-	(15)	(15)
Balance at June 30, 2020	$ 1,803	$ 1,042	$ 2,845

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, 2020:

	Fair Value at June 30, 2020	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Global developed equity	$ 485,035	none	1 to 90 days	1 to 60 days	(1)
Global fixed income	84,970	none	1 to 90 days	5 to 90 days	(1)
Long/short equity	104,400	none	1 to 36 months	60 to 90 days	(2)
Absolute return	108,602	none	3 to 6 months	45 to 90 days	(2)
Private equity and venture capital	331,549	$ 199,740	N/A	N/A	(3)
Real estate, energy, and timber	54,986	80,423	N/A	N/A	(3)
Total	$ 1,169,542	$ 280,163			

(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 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 NAV per share as reported by each underlying fund.

June 30, 2020 and 2019
(In thousands)

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

(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 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, 2020 and 2019 consists of the following:

	2020	2019
Land and land improvements	$ 42,018	$ 36,066
Buildings and permanent improvements	310,539	315,719
Equipment	27,151	28,467
Works of art	10,412	8,482
Equipment under capital lease	2,613	2,214
Property held for future use	15,520	15,520
Construction in progress	2,993	3,115
	411,246	409,583
Less accumulated depreciation	(129,445)	(124,883)
Net plant facilities	$ 281,801	$ 284,700

NOTE 7 - CAPITAL LEASE OBLIGATION:

The College entered into capital lease obligations to finance the acquisition of certain equipment. The corresponding obligations are due in monthly and annual installments with maturities through November 2024 and are secured by associated equipment.

The annual capital lease obligation is as follows:

Fiscal Years Ending June 30,	Lease Payments
2021	$ 436
2022	272
2023	182
2024	103
2025	4
Total payments	997
Less interest	(67)
Total capital lease obligation	$ 930

June 30, 2020 and 2019
(In thousands)

NOTE 8 - ASSET RETIREMENT OBLIGATION:

The College has recorded asset retirement obligations related to certain fixed assets, primarily for disposal of regulated materials upon eventual retirement of the assets.

The following schedule summarizes asset retirement obligation activity for the years ended June 30, 2020 and 2019:

	2020	2019
Obligations incurred	$ -	$ -
Obligations settled	-	-
Accretion expense	36	33
Revisions in estimated cash flows	-	-
	36	33
Beginning balance	885	852
Ending balance	$ 921	$ 885

NOTE 9 - FUNDS HELD IN TRUST FOR OTHERS:

At June 30, 2020 and 2019 funds held in trust for others consists of the following:

	2020	2019
College held third-party remainder interests held in trust	$ 2,698	$ 2,815
Other Claremont Colleges' interest in investment portfolio	319,343	328,459
Total funds held in trust for others	$ 322,041	$ 331,274

June 30, 2020 and 2019
(In thousands)

NOTE 10 - BONDS AND NOTE PAYABLE:

At June 30, 2020 and 2019, bonds and note payable was comprised of the following:

	2020	2019
Taxable Bonds		
Series 2019	$ 225,000	$ -
Bonds issued through California Educational Facilities Authority (CEFA):		
Series 2007	-	10,105
Series 2011	-	4,155
Series 2012	-	28,205
Series 2015	102,505	105,335
	102,505	147,800
Note issued through California Municipal Finance Authority (CMFA):		
2013 Tax-Exempt Loan	-	22,706
	327,505	170,506
Unamortized cost of issuance	(2,083)	(1,647)
Unamortized premium/(discount), net	9,370	13,710
Total bonds and note payable	$ 334,792	$ 182,569

The California Educational Facilities Authority (CEFA) Series 2007 bonds were partially defeased through the issuance of CEFA Series 2015 bonds. The remaining Series 2007 bonds and CEFA Series 2011 and 2012 bonds were fully defeased through the issuance of the Taxable Series 2019 bonds. A gain of $535 was recognized for the year ending June 30, 2020, representing the difference between the amount of defeased bonds series and the net carrying value of the new debt.

The CEFA Series 2015 bonds are due in 2039 and are general unsecured obligations of the College. Annual installments range from $3,015 in 2021 to $8,210 in 2038. Interest is payable semi-annually at rates ranging from 4.0% to 5.0%, at June 30, 2019.

In December 2013, the College signed a California Municipal Finance Authority (CMFA) Tax-Exempt Loan agreement, not to exceed $25,000, that matures December 2043. The 2013 CMFA loan was fully refinanced through the issuance of the Taxable Series 2019 bonds.

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.

Interest expense was $9,503 and $6,914 for the years ended June 30, 2020 and 2019, respectively.

June 30, 2020 and 2019
(In thousands)

NOTE 10 - BONDS AND NOTE PAYABLE: *Continued*

The maturity of note and bonds payable at June 30, 2020 is as follows:

Fiscal Years Ending June 30,	Principal Amount
2021	3,015
2022	3,190
2023	3,375
2024	3,575
2025	3,785
Thereafter	310,565
	$ 327,505

The Taxable Series 2019 and CEFA Series bond agreements contain various restrictive covenants which include maintenance of certain financial ratios, as defined in the agreements.

The College has one unsecured ten million dollar line of credit agreement with a bank, which expires in January 2021. The line of credit agreement is renewed annually and any borrowings under the line would bear interest payable monthly at the Prime Rate less 100 basis points. There were no borrowings outstanding on the line at June 30, 2020 and 2019.

NOTE 11 - ASSETS WHOSE USE IS LIMITED:

Indenture requirements of bond financing (see Note 10, "Bonds and Note 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 $6,287 and $3,292, respectively, at June 30, 2020 and 2019.

June 30, 2020 and 2019
(In thousands)

NOTE 12 - NET ASSETS:

At June 30, 2020 and 2019, net assets consists of the following:

	2020	2019
Without donor restrictions:		
For operations and designated purposes	$ 3,412	$ 5,177
Housing assistance and student loans	5,057	5,013
Board designated endowment funds	194,693	196,392
Plant facilities	132,639	121,309
Total net assets without donor restrictions	$ 335,801	$ 327,891
With donor restrictions:		
Restricted for specific purposes	$ 218,352	$ 124,664
Annuity and life income contracts and agreements	9,619	11,022
Term endowments	52,587	57,771
Portion of perpetual endowment fund subject to a time restriction under California UPMIFA:		
Without purpose restriction	18,541	19,684
With purpose restriction	205,466	227,231
Student loans	11,611	11,848
Endowment	480,982	410,967
Total net assets with donor restrictions	$ 997,158	$ 863,187

June 30, 2020 and 2019
(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, 2020 were as follows:

	Without Donor Restrictions	With Donor Restrictions	2020
Investment returns:			
Investment income	$ 37,992	$ (22,035)	$ 15,957
Endowment returns reinvested (or distributed for operations)	(41,783)	4,985	(36,798)
Net investment returns	(3,791)	(17,050)	(20,841)
Other changes in endowed equity:			
Gifts	-	63,973	63,973
Other changes	2,091	(4,999)	(2,908)
Total other changes in endowed equity	2,091	58,974	61,065
Net change in endowed equity	(1,699)	41,923	40,224
Endowed equity, beginning of year	196,392	715,653	912,045
Endowed equity, end of year	$ 194,693	$ 757,576	$ 952,269

At June 30, 2020, endowed equity consists of the following assets:

	Without Donor Restrictions	With Donor Restrictions	2020
Contributions receivable, net of discount	$ -	$ 96,704	$ 96,704
Other assets	-	114	114
Investments	194,693	660,758	855,451
Total endowed equity	$ 194,693	$ 757,576	$ 952,269

June 30, 2020 and 2019
(In thousands)

NOTE 13 - ENDOWMENT: ***Continued***

Changes in the College's endowment for the year ended June 30, 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions	2019
Investment returns:			
Investment income	$ 43,223	$ 5,625	$ 48,848
Endowment returns reinvested (or distributed for operations)	(39,215)	4,563	(34,652)
Net investment returns	4,008	10,188	14,196
Other changes in endowed equity:			
Gifts	-	21,767	21,767
Other changes	2,541	(7,472)	(4,931)
Total other changes in endowed equity	2,541	14,295	16,836
Net change in endowed equity	6,549	24,483	31,032
Endowed equity, beginning of year	189,843	691,170	881,013
Endowed equity, end of year	$ 196,392	$ 715,653	$ 912,045

At June 30, 2019, endowed equity consists of the following assets:

Contributions receivable, net of discount	$ -	$ 46,446	$ 46,446
Other assets	-	124	124
Investments	196,392	669,083	865,475
Total endowed equity	$ 196,392	$ 715,653	$ 912,045

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 $579 and $232 at June 30, 2020 and 2019, respectively. Deficiencies for donor-restricted endowment funds were recorded as a reduction in endowments with donor restrictions.

June 30, 2020 and 2019
(In thousands)

NOTE 14 – LIQUIDITY AND AVAILABILITY:

As of June 30, 2020 and 2019, the College's financial assets and liquidity resources available within one year for general expenditure are as follows:

	2020	2019
Financial assets:		
Cash	$ 889	$ 1,138
Accounts and notes receivable, net	4,142	2,801
Contributions receivable, net	13,699	14,410
Short term investments	164,555	64,184
Board designations:		
Funds functioning as endowment	193,711	195,414
Subsequent year's endowment spending policy	32,979	31,643
Total financial assets available within one year	409,975	309,590
Liquidity resources:		
Bank line of credit	10,000	10,000
Total financial assets and liquidity resources available within one year	$ 419,975	$ 319,590

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, 2020 and 2019 consist of the following:

	2020	2019
Tuition and fees	$ 76,550	$ 73,148
Room and board	15,230	18,956
Gross student revenues	91,780	92,104
Less financial aid	(27,531)	(25,201)
Net student revenues	$ 64,249	$ 66,903

June 30, 2020 and 2019
(In thousands)

NOTE 16 - NATURAL CLASSIFICATION OF EXPENSES:

Expenses by natural classification for the years ended June 30, 2020 and 2019, consist of the following:

	Academic and Research	Student and Auxiliary Services	Institutional Support	2020
Direct employee costs	$ 39,830	$ 13,708	$ 10,884	$ 64,422
General services, travel and transportation	3,508	4,750	4,576	12,834
Shared services and joint programs	9,438	1,835	4,266	15,539
General supplies and other expenses	1,482	5,009	911	7,402
Plant maintenance and equipment	2,657	6,550	1,567	10,774
Interest expense	3,315	5,759	484	9,558
Depreciation expense	2,802	6,617	574	9,993
Total expenses	$ 63,032	$ 44,228	$ 23,262	$ 130,522

	Academic and Research	Student and Auxiliary Services	Institutional Support	2019
Direct employee costs	$ 40,609	$ 13,790	$ 10,062	$ 64,461
General services, travel and transportation	4,674	6,236	4,832	15,742
Shared services and joint programs	5,780	1,750	3,831	11,361
General supplies and other expenses	1,552	4,761	1,025	7,338
Plant maintenance and equipment	2,916	7,134	1,769	11,819
Interest expense	2,599	4,027	328	6,954
Depreciation expense	2,746	6,485	563	9,794
Total expenses	$ 60,876	$ 44,183	$ 22,410	$ 127,469

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, 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, 2020 and 2019 totaled $5,150 and $4,862, respectively.

NOTE 18 - INSTITUTIONAL SUPPORT FUNDRAISING EXPENSE:

Included in Institutional Support expenses are $4,162 and $4,954 of expenditures related to fundraising for the years ended June 30, 2020 and 2019, respectively.

June 30, 2020 and 2019
(In thousands)

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, 2020 and 2019 totaled $7,627 and $7,433, respectively.

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.

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 at June 30, 2020 and 2019 totaled $23,900 and $24,154, respectively.

The College receives contributions and promises to give from members of the Board of Trustees. For the years ended June 30, 2020 and 2019, the College received $157,836 and $21,524, respectively, of total private gifts and grants from members of the Board of Trustees. For the years ended June 30, 2020 and 2019, private gifts and grants from the Board of Trustees were comprised approximately of 96% and 68% from one and three members, respectively. At June 30, 2020 and 2019, contributions receivable from members of the Board of Trustees totaled $239,097 and $101,409, 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.

NOTE 22 - SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 22, 2020, which corresponds to the date when the financial statements are available for issuance.

For additional copies, please contact
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