# SCRIPPS

THE WOMEN'S COLLEGE • CLAREMONT

## Financial Report 2012-2013

THE PARAMOUNT

OBLIGATION OF A COLLEGE

IS TO DEVELOP IN ITS STUDENTS

THE ABILITY TO THINK CLEARLY

AND INDEPENDENTLY,

AND THE ABILITY

TO LIVE CONFIDENTLY,

COURAGEOUSLY, AND

HOPEFULLY.

ELLEN BROWNING SCRIPPS

*Covers:*
*Front, Bette Cree Edwards Humanities Building Court*
*Back, Groundbreaking of the Katharine Howard Miller '55 Wing*

# SCRIPPS COLLEGE
# ANNUAL FINANCIAL REPORT

2013 and 2012

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MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

# REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Scripps College

**Report on the Financial Statements**

We have audited the accompanying financial statements of Scripps College (the "College"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scripps College as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Los Angeles, California
October 29, 2013

# SCRIPPS COLLEGE
# STATEMENTS OF FINANCIAL POSITION

June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 946,967 | $ 122,640 |
| Accounts receivable, net | 614,087 | 713,025 |
| Prepaid expenses and deposits | 1,668,555 | 1,473,584 |
| Notes receivable, net | 4,876,620 | 4,830,610 |
| Contributions receivable, net | 20,377,729 | 13,232,252 |
| Investments | 302,867,999 | 281,172,119 |
| Investments held as a reserve for depreciation | 5,450,758 | 4,145,641 |
| Collections | 18,331,547 | 17,785,311 |
| Plant facilities, net | 86,026,940 | 85,757,574 |
| Total assets | $ 441,161,202 | $ 409,232,756 |
| **LIABILITIES AND NET ASSETS** | | |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | $ 4,525,582 | $ 4,809,070 |
| Deposits and deferred revenue | 1,879,985 | 2,418,827 |
| Life income and annuities payable | 1,984,083 | 3,448,479 |
| Liability for staff retirement plan | 681,992 | 1,230,951 |
| Note and Bonds payable | 36,708,818 | 35,602,816 |
| Government advances for student loans | 1,566,693 | 1,602,115 |
| Funds held in trust for others | 83,055 | 58,696 |
| Asset retirement obligation | 802,108 | 795,257 |
| Total liabilities | 48,232,316 | 49,966,211 |
| **Net assets** | | |
| Unrestricted | 99,716,206 | 95,191,302 |
| Temporarily restricted | 159,879,915 | 143,165,069 |
| Permanently restricted | 133,332,765 | 120,910,174 |
| Total net assets | 392,928,886 | 359,266,545 |
| Total liabilities and net assets | $ 441,161,202 | $ 409,232,756 |

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

# SCRIPPS COLLEGE
# STATEMENTS OF ACTIVITIES

For the year ended June 30, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2013 |
|---|---|---|---|---|
| **Net Assets** | | | | |
| Revenues and releases of net assets: | | | | |
| Tuition, room and board | $ 52,536,721 | $ - | $ - | $ 52,536,721 |
| Less financial aid | 14,627,589 | - | - | 14,627,589 |
| Net student revenues | 37,909,132 | - | - | 37,909,132 |
| Contributions | 3,661,585 | 5,038,639 | 10,789,630 | 19,489,854 |
| Federal grants and contracts | 378,045 | - | - | 378,045 |
| Spending policy income | 13,280,778 | 1,147,859 | 30,943 | 14,459,580 |
| Other investment income, net | 504,926 | 4,280 | (2,690) | 506,516 |
| Other revenue | 1,038,415 | 209 | 1,568 | 1,040,192 |
| Release of restricted net assets: | | | | |
| Operations | 2,457,202 | (2,457,202) | - | - |
| Annuity and life income | 375,293 | (280,312) | (94,981) | - |
| Total revenues and release of net assets | 59,605,376 | 3,453,473 | 10,724,470 | 73,783,319 |
| Expenses: | | | | |
| Academic program | 29,406,028 | - | - | 29,406,028 |
| Co-curricular program | 15,598,473 | - | - | 15,598,473 |
| Marketing | 7,168,192 | - | - | 7,168,192 |
| Administrative and general | 5,936,511 | - | - | 5,936,511 |
| Total expenses | 58,109,204 | - | - | 58,109,204 |
| Operating surplus | 1,496,172 | 3,453,473 | 10,724,470 | 15,674,115 |
| Other changes in net assets: | | | | |
| Release of restricted net assets - plant | 305,757 | (305,757) | | - |
| Redesignation of net assets | 71,398 | (91,781) | 20,383 | - |
| Net realized and unrealized gains (losses) on investments net of allocation to operations | 2,472,899 | 12,913,302 | 115,082 | 15,501,283 |
| Actuarial adjustment of annuity and life income liabilities | - | 745,609 | 1,562,656 | 2,308,265 |
| Other comprehensive pension (expense) income | 452,548 | - | - | 452,548 |
| Gain (loss) on bond defeasance | (75,991) | - | - | (75,991) |
| Transfer to Claremont University Consortium | (197,879) | - | - | (197,879) |
| Total other changes in net assets | 3,028,732 | 13,261,373 | 1,698,121 | 17,988,226 |
| Change in net assets | 4,524,904 | 16,714,846 | 12,422,591 | 33,662,341 |
| Net assets, beginning of year | 95,191,302 | 143,165,069 | 120,910,174 | 359,266,545 |
| Net assets, end of year | $ 99,716,206 | $ 159,879,915 | $ 133,332,765 | $ 392,928,886 |

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

# SCRIPPS COLLEGE
# STATEMENTS OF ACTIVITIES

For the year ended June 30, 2012

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2012 |
|---|---|---|---|---|
| **Net Assets** | | | | |
| Revenues and releases of net assets: | | | | |
| Tuition, room and board | $ 51,670,058 | $ - | $ - | $ 51,670,058 |
| Less financial aid | 14,148,810 | - | - | 14,148,810 |
| Net student revenues | 37,521,248 | - | - | 37,521,248 |
| Contributions | 4,382,859 | 3,313,863 | 1,209,585 | 8,906,307 |
| Federal grants and contracts | 395,567 | - | - | 395,567 |
| Spending policy income | 13,332,978 | 1,007,231 | 36,255 | 14,376,464 |
| Other investment income, net | 312,127 | 5,171 | (20,761) | 296,537 |
| Other revenue | 714,888 | - | 1,484 | 716,372 |
| Release of restricted net assets: | | | | |
| Operations | 2,432,859 | (2,432,859) | - | - |
| Annuity and life income | 51,612 | (51,612) | - | - |
| Total revenues and release of net assets | 59,144,138 | 1,841,794 | 1,226,563 | 62,212,495 |
| Expenses: | | | | |
| Academic program | 28,209,066 | - | - | 28,209,066 |
| Co-curricular program | 15,571,523 | - | - | 15,571,523 |
| Marketing | 7,415,442 | - | - | 7,415,442 |
| Administrative and general | 6,185,150 | - | - | 6,185,150 |
| Total expenses | 57,381,181 | - | - | 57,381,181 |
| Operating surplus | 1,762,957 | 1,841,794 | 1,226,563 | 4,831,314 |
| Other changes in net assets: | | | | |
| Release of restricted net assets - plant | 37,500 | (37,500) | - | - |
| Redesignation of net assets | (102,374) | (6,272,791) | 6,375,165 | - |
| Net realized and unrealized gains (losses) on investments net of allocation to operations | (2,196,338) | (10,507,686) | 47,441 | (12,656,583) |
| Actuarial adjustment of annuity and life income liabilities | - | (86,448) | (377,040) | (463,488) |
| Other comprehensive pension (expense) income | (547,068) | - | - | (547,068) |
| Transfer to Claremont University Consortium | (37,486) | - | - | (37,486) |
| Total other changes in net assets | (2,845,766) | (16,904,425) | 6,045,566 | (13,704,625) |
| Change in net assets | (1,082,809) | (15,062,631) | 7,272,129 | (8,873,311) |
| Net assets, beginning of year | 96,274,111 | 158,227,700 | 113,638,045 | 368,139,856 |
| Net assets, end of year | $ 95,191,302 | $ 143,165,069 | $ 120,910,174 | $ 359,266,545 |

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

# SCRIPPS COLLEGE
# STATEMENTS OF CASH FLOWS

For the years ended June 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities: | | |
| Tuition, room and board, net of financial aid | $ 38,182,494 | $ 37,603,651 |
| Gifts, grants and contracts | 2,430,867 | 7,471,338 |
| Investment income | 3,403,717 | 3,296,896 |
| Other revenue | 1,060,853 | 737,573 |
| Payments for interest on debt | (2,021,132) | (1,682,768) |
| Payments to employees and suppliers | (52,710,152) | (51,286,651) |
| Net cash (used in) operating activities | (9,653,353) | (3,859,961) |
| Cash flows from investing activities: | | |
| Purchase of plant facilities | (4,369,103) | (2,398,391) |
| Proceeds from sale of investments | 214,865,709 | 143,313,133 |
| Purchase of investments | (210,746,459) | (138,317,722) |
| Loans made to students and faculty | (687,522) | (404,311) |
| Collection of student and faculty loans | 449,352 | 433,570 |
| Net cash (used in) provided by investing activities | (488,023) | 2,626,279 |
| Cash flows from financing activities: | | |
| Payments to life income beneficiaries | (405,045) | (464,662) |
| Investment income on life income contracts | 609,981 | 594,006 |
| Proceeds from borrowings | 8,069,009 | - |
| Principal payments on debt | (6,920,000) | (675,000) |
| Contributions for restricted purposes | 9,647,180 | 1,766,143 |
| Change in advances for student loans | (35,422) | (18,639) |
| Net cash provided by financing activities | 10,965,703 | 1,201,848 |
| Net increase (decrease) in cash | 824,327 | (31,834) |
| Cash at beginning of year | 122,640 | 154,474 |
| Cash at end of year | $ 946,967 | $ 122,640 |
| Reconciliation of change in net assets to cash flows from operating activities: | | |
| Change in net assets | $ 33,662,341 | $ (8,873,311) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation expense | 4,099,737 | 4,083,137 |
| Gifts in kind | (546,236) | (5,004) |
| Realized (gains) losses on sale of investments | (20,185,067) | (15,025,479) |
| Unrealized (gains) losses on investments | (6,878,593) | 16,344,821 |
| Changes in asset retirement obligation, bond discount and cost of issuance | (187,701) | 68,260 |
| (Gain) loss on bond defeasance | 75,991 | - |
| Comprehensive pension (income) expense | 452,548 | (547,068) |
| Adjustment of actuarial liability for life income agreements | (2,308,265) | 463,488 |
| Adjustment on contributions receivable | (78,551) | (38,844) |
| Changes in operating assets and liabilities | | |
| Accounts and notes receivable | 289,930 | (170,896) |
| Contributions receivable | (77,708) | - |
| Prepaid expenses and deposits | (119,520) | 137,679 |
| Accounts payable and other accrued liabilities | (283,488) | 443,700 |
| Deposits and deferred revenue | (241,790) | 659,337 |
| Defined benefit plan contributions (over)/under expense | (1,001,507) | 945,293 |
| Contributions for long-term investments | (16,325,474) | (2,345,074) |
| Net cash (used in) operating activities | $ (9,653,353) | $ (3,859,961) |

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

June 30, 2013 and 2012

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

Founded in 1926, Scripps College (the "College") is an independent, liberal arts college for women with a distinctive interdisciplinary core curriculum offering instruction in the humanities, fine arts, and the natural and social sciences. The College had an enrollment of approximately 940 students. The campus is listed on the National Register of Historic Places.

Its mission is to educate women to develop their intellect and talents through active participation in a community of scholars, so that as graduates they may contribute to society through public and private lives of leadership, service, integrity and creativity.

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

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

**Net Asset Categories:**
The accompanying 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:**
Net assets that are not subject to donor-imposed restrictions.

**Temporarily Restricted Net Assets:**
Net assets that are subject to donor-imposed restrictions that either lapse or can be satisfied.

**Permanently Restricted Net Assets:**
Net assets subject to donor-imposed restrictions that they be maintained permanently by the College. Generally, the donors permit the College to use all or part of the earnings on these assets for general or specific purposes.

**Revenue and Expense Recognition:**
Tuition and Fees – Student tuition and fees are recorded as revenues in the year during which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenues. Collectability of student accounts and notes 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.

Contributions - Contributions, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate category of net assets. Contributions where donor restrictions are met within the same fiscal year as the contribution are included in unrestricted 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. Contributions to be received in future periods are discounted to net present value at an appropriate discount rate.

June 30, 2013 and 2012

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

**Revenue and Expense Recognition, Continued:**
Investment Return – Investment income and gains and losses on investments and changes in other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

Expenses - Expenses are generally reported as decreases in unrestricted net assets. The financial statements present expenses by functional classification in accordance with the overall educational and research mission of the College.

**Operating Revenues and Expenses:**
The College reports operating revenues and expenses in the unrestricted net asset section of the Statements of Activities. Operations are those annual activities which support the core mission of the College.

Operating revenues include charges for tuition, room and board, net of financial aid, gifts and grants, spending policy income, other investment income, releases of temporarily restricted net assets for operations and unrestricted annuity and life income, and miscellaneous income.

Operating expenses (for which the operating revenues are used) include salaries and benefits, departmental expenses, depreciation, amortization and interest. These expenses are classified into four cost centers called; Academic Program, Co-curricular Program, Marketing and Administrative and General.

**Operating Expense Categories and Allocation of Certain Expenses:**
The Statements of Activities present expenses by four functional categories. Academic Program includes expenses for instruction and related academic support departments such as libraries, the Dean of Faculty and Registrar's Offices. Co-curricular Program includes expenses associated with the residential life operation of the College and related support departments such as Dean of Students Office and Career Planning and Research. Marketing expenses of the College include departments such as Admission/Financial Aid, Public Relations, Alumnae Relations and the Advancement Office. Administrative and General includes expenses such as planning, institutional research, liability insurance, legal and audit fees, and the President and Treasurer's Offices.

Depreciation, interest expense and the cost for the operation and maintenance of the physical plant are allocated to the four functional categories based on building square footage dedicated to that specific function. Computing costs are allocated based upon estimated use.

**Expiration 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 has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The College follows the policy of reporting donor-imposed restricted contribution and endowment income whose restrictions are met in the same period as received as unrestricted support. It is also the College's policy to recognize the fulfillment of the restrictions on contributions of cash or other assets received for the acquisitions of long-lived assets when the long-lived assets are placed into service.

June 30, 2013 and 2012

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

**Cash:**
For the purposes of reporting cash flows, cash includes demand deposit bank accounts.

**Concentration of Credit Risk:**
Financial instruments that potentially subject the College to concentrations of credit risk consists 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).

**Investments:**
Cash Equivalents – Resources invested in money market funds are classified as cash equivalents, including any such investments held by external investment managers. Resources invested in money market funds for loan programs are classified as short term investments.

Marketable Securities and Other Investments - Marketable securities are reported at fair value, except for trust deed loans, certain real estate investments, and other miscellaneous assets which are stated at cost. 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. The date of record for investments is the trade date.

Alternative Investments - Venture capital investments are stated at fair value as of the most recent valuation date at or prior to year-end. Diversified limited partnership interests are invested in both publicly and privately owned securities. The fair values of private investments are based on estimates and assumptions of the general partners or partnership valuation committees in the absence of readily determinable market values. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of similar investments and other pertinent information. The private investments have a high concentration of pre-initial public offering securities, subjecting these investments to market value volatility.

Due to the risks associated with certain investments and the level of uncertainty related to changes in the value of the investment securities, it is at least reasonably possible that changes in risks in the near term could materially effect account balances and the amounts reported in the Statements of Financial Position. The values of the alternative investments, on the Statements of Financial Position, for the years ended June 30, 2013 and 2012 are approximately $209,365,000 and $150,276,000, respectively.

Bond reserve fund - Indenture requirements of bond financing (see Note 8, "Note and Bonds Payable") provide for the establishment and maintenance of various accounts with trustees. The indenture terms limit the use of these funds to the construction of plant facilities and payment of principal and interest to bond holders. Assets whose use is limited are comprised of cash equivalents, government and corporate securities and are recorded at cost, which approximates fair value.

The College reviews and evaluates the values provided by the investment managers and believes the valuation methods and assumptions used in determining the fair value of the alternative investments are appropriate. Net realized and unrealized gains (losses) from alternative investments, on the Statements of Activities, for the years ended June 30, 2013 and 2012 are approximately $18,532,000 and $921,000, respectively.

June 30, 2013 and 2012

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

**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 whereby the amount of investment return available for current operations is determined by applying 5.35% and 5.40% to the twenty-quarter average market value of pooled investments for the years ended June 30, 2013 and 2012, respectively. If the ordinary income of pooled investments is insufficient to provide the full amount of investment return specified, the balance may be appropriated from the available cumulative realized gains of the pooled investments. Cumulative net realized gains and transfers of ordinary income in excess of the spending policy ("cumulative gains") are recorded as changes in unrestricted and temporarily restricted net assets and are available for appropriation under the College's spending policy. At June 30, 2013 and 2012, these cumulative gains totaled approximately $131,743,000 and $125,146,000, respectively.

**Endowment Funds:**
The Board of Trustees of the College interprets 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 as the College determines prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Therefore, the College classifies as permanently restricted net assets the original value of gifts to the endowment and the accumulations made in accordance with the donor intent. The remaining portion of the donor-restricted endowment fund 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 California UPMIFA which includes the:

(1) Duration and preservation of the fund
(2) Mission of the College and purpose 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.

**Funds with Deficiencies:**
From time to time declines in the market value of the investment pool have created a situation where the fair value of certain endowments is less than the historical cost basis of the original gift(s). Deficiencies of this nature have been recorded as decreases in unrestricted net assets and were approximately $223,000 and $1,099,000 at June 30, 2013 and 2012, respectively.

**Fair Value Measurement 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 loan fund receivables, which are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

The College carries most investments and its beneficial interest in trusts held by a third party at fair value in accordance with applicable standards. 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. The standard establishes 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 under the standard are as follows:

June 30, 2013 and 2012

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

**Fair Value Measurement of Financial Instruments, continued**:
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.

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

The investments in certain domestic and international equities and fixed income, real properties and those long/short hedge funds and absolute return hedge funds with certain liquidity terms are valued based on quoted market prices of comparable assets, and are therefore typically classified within Level 2. In addition, 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.

The investments in long/short hedge funds and absolute return hedge funds with restricted liquidity terms, private equity funds, limited partnerships, and beneficial interest in trusts held by third parties are valued utilizing unobservable inputs, and 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 has determined, through its monitoring activities, to rely on the fair market value as determined by the investment managers. The balance of unfunded commitments to limited partnerships, remaining life of finite investments and the terms for redeeming from investment funds including any restrictions are disclosed below.

The general partners of the underlying investment partnerships generally value their investments at fair value in accordance with appropriate standards. Investments with non readily available market are generally valued valued at estimated fair value 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 company 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, there are inherent limitations in any methodology. Therefore, the values presented herein are not necessarily indicative of the amount that the College could realize in a current transaction. Future confirming 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 liquidation of the investments.

June 30, 2013 and 2012

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

**Collections:**
The College capitalizes its collections of works of art and rare books at their appraised or estimated current market value upon date of gift. In some cases, collection items held solely for their potential educational value or historic significance, or where the cost to establish the current market value was deemed to exceed the benefit, were not assigned value for the purpose of capitalization.

**Plant Facilities:**
Plant facilities consists of property, plant and equipment and are stated at cost, representing the original purchase price or fair value at the date of the gift, less accumulated depreciation. Plant purchases with a useful life of five years or more and a cost equal to or greater than $25,000 for land improvements, $50,000 for large buildings (10,000 square feet), $25,000 for other buildings and $15,000 for equipment are capitalized. Depreciation is computed on a straight-line basis over the estimated useful lives the assets, generally, 25 years for land improvements, 60 years for buildings, 4 years for computing equipment and 7 years for other equipment. Depreciation expense is funded through operations and contributions. The cost and accumulated depreciation of assets sold or retired are removed from the accounts and the related gains or losses are included in the Statements of Activities. Asset retirement obligations are recorded based on estimated settlement dates and methods.

During fiscal years ended June 30, 2013 and 2012, no equipment or property was acquired with restricted assets where title may revert to another party, and there were no disposals of equipment or property purchased with federal funds.

**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 met. However, the costs of managing these contracts and agreements are included in operating expenditures. 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 assets category. Investment income and gains are credited, and annuity payments and investment losses are charged, to the liability accounts, with periodic adjustments made between the liability and the net assets to record actuarial gains or losses. The actual liability for the years ended June 30, 2013 and 2012 is based on the present value of future payments discounted at rates ranging from 3.4% to 7.5% and over estimated lives according to the 2000 Group Annuity Mortality Tables.

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 Rating Organization (“NRSRO”) bond rating of “A” or better and (2) maintain an endowment to gift annuity reserve ratio of at least 10:1.

**Use of Estimates:**
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Income Taxes:**
The College has no unrecognized tax benefits as of June 30, 2013 and 2012. The College is no longer subject to income tax examinations by taxing authorities for years before 2009 for its federal filings and for years before 2008 for its state filings.

**Reclassifications:**
Certain 2012 amounts have been reclassified to conform to 2013 presentation.

June 30, 2013 and 2012

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

Accounts receivable at June 30, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Student accounts | $ 172,232 | $ 125,185 |
| Federal and private grants and contracts | 24,101 | 8,904 |
| Other Claremont Colleges | 295,090 | 546,580 |
| Travel advances | 18,570 | 20,007 |
| Other | 133,753 | 21,334 |
| | 643,746 | 722,010 |
| Less allowance for doubtful accounts | (29,659) | (8,985) |
| Total accounts receivable, net | $ 614,087 | $ 713,025 |

Notes receivable at June 30, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Student notes | $ 5,108,468 | $ 5,095,869 |
| Faculty loans | 144,600 | 89,474 |
| | 5,253,068 | 5,185,343 |
| Less allowance for doubtful student notes | (376,448) | (354,733) |
| Total notes receivable, net | 4,876,620 | 4,830,610 |
| Less current portion | (449,352) | (434,755) |
| Non current notes receivable | $ 4,427,268 | $ 4,395,855 |

**NOTE 3 - CONTRIBUTIONS RECEIVABLE:**

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Promises to give are initially recorded at fair value, by discounting to the present value of future cash flows at rates ranging from 2.4 to 5.1%.

Unconditional promises to give at June 30, 2013 and 2012 are expected to be realized in the following periods:

| | 2013 | 2012 |
|---|---|---|
| Within one year | $ 5,230,757 | $ 2,800,672 |
| Between one year and five years | 4,650,750 | 1,897,004 |
| More than five years | 11,708,091 | 9,343,744 |
| | 21,589,598 | 14,041,420 |
| Less discount | (695,561) | (214,299) |
| Less allowance for doubtful contributions receivable | (516,308) | (594,869) |
| | $ 20,377,729 | $ 13,232,252 |
| Current portion, net of discount | 5,230,757 | 2,800,672 |
| Non-current portion, net of discount | 15,146,972 | 10,431,580 |
| Contributions receivable, net | $ 20,377,729 | $ 13,232,252 |

Contributions receivable at June 30, 2013 and 2012 are intended for the following uses:

| | 2013 | 2012 |
|---|---|---|
| Endowment | $ 5,566,066 | $ 1,713,876 |
| Beneficial interest in trusts held by a third party | 8,425,574 | 8,154,006 |
| Other | 6,386,089 | 3,364,370 |
| Total | $ 20,377,729 | $ 13,232,252 |

30.3% and 44.9% of contributions receivable was due from a single donor at June 30, 2013 and 2012, respectively.

June 30, 2013 and 2012

**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 pertaining to this method for the years ended June 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Unit market value at end of year | $ 509.21 | $ 481.16 |
| Units owned: | | |
| Unrestricted | 65,095 | 60,654 |
| Temporarily restricted | 20,694 | 21,136 |
| Permanently restricted | 483,496 | 469,612 |
| Total | 569,285 | 551,402 |

Investment income related to College investments, net of management and custody fees of $1,348,091 and $1,500,124 for the years ended June 30, 2013 and 2012, respectively, is as follows:

| | 2013 | 2012 |
|---|---|---|
| Pooled investments income | $ 3,302,018 | $ 3,337,064 |
| Pooled investments gains (losses) appropriated | 11,393,813 | 11,376,179 |
| Total spending policy income and gains (losses) | 14,695,831 | 14,713,243 |
| Less amounts allocated to annuity and life income contracts/agreements | (236,251) | (336,779) |
| Total spending policy income | 14,459,580 | 14,376,464 |
| Other investment income | 507,186 | 386,460 |
| Other investment gains (losses) | 235,624 | (94) |
| Less amounts allocated to annuity and life income contracts/agreements | (236,294) | (89,829) |
| Total other investment income | 506,516 | 296,537 |
| Realized gains (losses) on investments | 20,016,676 | 15,064,417 |
| Unrealized gains (losses) on investments | 6,878,420 | (16,344,821) |
| Pooled investment gains appropriated | (11,393,813) | (11,376,179) |
| Net realized and unrealized gains (losses) on investments net of allocation to operations | 15,501,283 | (12,656,583) |
| Total investment return | $ 30,467,379 | $ 2,016,418 |

June 30, 2013 and 2012

**NOTE 4 - INVESTMENTS, CONTINUED:**

It is the College's policy to invest and maintain a diversified investment portfolio. The following schedule summarizes investments at June 30:

| Investment by program: | 2013 | 2012 |
|---|---|---|
| Investment pool | $ 289,887,408 | $ 265,311,783 |
| Separate investments | 18,431,349 | 20,005,977 |
| Total by program | $ 308,318,757 | $ 285,317,760 |

| Investment by asset type: | 2013 | 2012 |
|---|---|---|
| Cash equivalents | $ 31,571,848 | $ 17,835,052 |
| Money market | 12,809,046 | 14,332,154 |
| Domestic equities | 46,489,052 | 44,678,251 |
| International equities | 55,415,876 | 39,465,838 |
| Private equity | 78,227,632 | 86,593,528 |
| Domestic fixed income | 18,410,242 | 24,717,078 |
| Global fixed income | 5,704,750 | 5,284,533 |
| Real properties | 551,498 | 481,498 |
| Long/short hedge funds | 23,638,380 | 19,159,615 |
| Absolute return hedge funds | 34,598,429 | 31,628,015 |
| Bond reserve fund | 387,212 | 392,854 |
| Other assets | 514,792 | 749,344 |
| Total by asset type | $ 308,318,757 | $ 285,317,760 |

| Investments by category: | 2013 | 2012 |
|---|---|---|
| Endowment and funds functioning as endowment | $ 282,289,240 | $ 256,996,859 |
| Annuity and life income funds | 9,199,281 | 9,328,615 |
| Reserve for depreciation | 5,450,758 | 4,145,641 |
| Other | 11,379,478 | 14,846,645 |
| Total by category | $ 308,318,757 | $ 285,317,760 |

The College holds certain investments at the original appraisal value and does not revalue the assets on a recurring basis. At June 30, 2013 and 2012 investments held at cost was $21,261 and $25,470, respectively.

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

The following tables present the investments and beneficial interest in trusts held by third parties carried on the Statement of Financial Position by level within the valuation hierarchy as of June 30, 2013 and 2012:

| | Level 1 | Level 2 | Level 3 | 2013 |
|---|---|---|---|---|
| Cash and cash equivalents | $ 31,571,848 | $ - | $ - | $ 31,571,848 |
| Money market | 12,809,046 | - | - | 12,809,046 |
| Domestic equities | 33,715,898 | 5,758,589 | 7,000,000 | 46,474,487 |
| International equities | 38,981,277 | 12,944,729 | 3,489,870 | 55,415,876 |
| Private equity | - | - | 78,227,632 | 78,227,632 |
| Domestic fixed income | 1,850,632 | 16,559,610 | - | 18,410,242 |
| Global fixed income | 5,704,750 | - | - | 5,704,750 |
| Real properties | - | 545,000 | - | 545,000 |
| Long/short hedge funds | - | 13,041,254 | 10,597,126 | 23,638,380 |
| Absolute return hedge funds | - | 22,775,833 | 11,822,596 | 34,598,429 |
| Assets whose use is limited | - | 387,212 | - | 387,212 |
| Other | 67,794 | 446,800 | - | 514,594 |
| Total investments | 124,701,245 | 72,459,027 | 111,137,224 | 308,297,496 |
| Beneficial interest in trusts held by third parties | - | - | 8,425,574 | 8,425,574 |
| Total investment and Beneficial interest in trusts held by third parties | $ 124,701,245 | $ 72,459,027 | $ 119,562,798 | $ 316,723,070 |

June 30, 2013 and 2012

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

| | Level 1 | Level 2 | Level 3 | 2012 |
|---|---|---|---|---|
| Cash and cash equivalents | $ 17,835,052 | $ - | $ - | $ 17,835,052 |
| Money market | 14,332,154 | - | - | 14,332,154 |
| Domestic equities | 39,479,612 | 5,179,865 | - | 44,659,477 |
| International equities | 32,599,048 | 6,866,790 | - | 39,465,838 |
| Private equity | - | - | 86,593,528 | 86,593,528 |
| Domestic fixed income | 1,942,286 | 22,774,792 | - | 24,717,078 |
| Global Fixed Income | 5,284,533 | - | - | 5,284,533 |
| Real properties | - | 475,000 | - | 475,000 |
| Long/short hedge funds | - | 6,755,369 | 12,404,246 | 19,159,615 |
| Absolute return hedge funds | - | 22,993,495 | 8,634,520 | 31,628,015 |
| Assets whose use is limited | 5,806 | 387,048 | - | 392,854 |
| Other | 321,992 | 427,154 | - | 749,146 |
| Total investments | 111,800,483 | 65,859,513 | 107,632,294 | 285,292,290 |
| Beneficial interest in trusts held by third parties | - | - | 8,154,006 | 8,154,006 |
| Total investment and Beneficial interest in trusts held by third parties | $111,800,483 | $65,859,513 | $115,786,300 | $293,446,296 |

The following table includes a rollforward of the amounts for the years ended June 30, 2013 and 2012 for assets classified within Level 3:

| | Domestic and International Equities | Private Equity | Long/Short Hedge Funds | Absolute Return Hedge Funds | Beneficial Interest in Trusts | Total |
|---|---|---|---|---|---|---|
| Balance at July 1, 2011 | $ - | $ 95,286,014 | $ 15,086,018 | $12,794,762 | $ 8,408,867 | $131,575,661 |
| Transfers out (1) | - | - | (2,090,063) | (5,045,978) | - | (7,136,041) |
| Purchases | - | 11,379,083 | 5,500,000 | 2,500,199 | - | 19,379,282 |
| Sales | - | (21,909,451) | (5,929,745) | (1,964,726) | - | (29,803,922) |
| Realized gain/(loss), net | - | 8,683,163 | 1,929,745 | 1,281,098 | - | 11,894,006 |
| Unrealized gain/(loss), net | - | (6,845,281) | (2,091,709) | (930,835) | - | (9,867,825) |
| Actuarial adjustment | - | - | - | - | (254,861) | (254,861) |
| Balance at June 30, 2012 | - | 86,593,528 | 12,404,246 | 8,634,520 | 8,154,006 | 115,786,300 |
| Transfers out of level 3 (1) | - | - | (2,927,336) | - | - | (2,927,336) |
| Purchases | 10,000,000 | 8,077,471 | - | 3,500,000 | - | 21,577,471 |
| Sales | - | (23,864,630) | (616,826) | (1,028,755) | - | (25,510,211) |
| Realized gain/(loss), net | - | 8,931,965 | 616,826 | 891,639 | - | 10,440,430 |
| Unrealized gain/(loss), net | 489,870 | (1,510,702) | 1,120,216 | (174,808) | - | (75,424) |
| Actuarial adjustment | - | - | - | - | 271,568 | 271,568 |
| Balance at June 30, 2013 | $10,489,870 | $ 78,227,632 | $ 10,597,126 | $11,822,596 | $ 8,425,574 | $119,562,798 |

(1) Transfers out of Level 3 are due to the expiration or changes to lock up periods related to the ability to redeem investments in the near term.

Net realized and unrealized gains (losses) on investments and actuarial adjustment on beneficial interest in trusts in the table above are reflected in the lines "Net realized and unrealized gains (losses) on investments net of allocation to operations" and "Actuarial adjustment of annuity and life income liabilities", respectively, on the Statement of Activities. Net unrealized gains (losses) on investments and actuarial adjustment on beneficial interest in trusts included in the Statement of Activities for Level 3 assets still held at June 30, 2013 was approximately $945,000 and $272,000.

June 30, 2013 and 2012

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

The significant unobservable inputs used in the fair value measurement of the College's Beneficial Interest in Trusts are the mortality rate and risk factor used in the rate to discount the cash flow of the trusts. The mortality rate ranged from 4-12 years and the risk rate ranged from 1-2%. Significant increases (decreases) in any of the inputs would result in a significantly lower (higher) fair value measurement. Beneficial Interest in Trusts classified as Level 3 are valued based on the discounted cash flow of the income and expenses from the underlying assets and liabilities in the trusts over the estimated lives of the income beneficiaries of the trusts.

The following table presents fair value measurements of investments that calculate net asset value per share (or its equivalent) as of June 30, 2013:

| | | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|---|
| Investments: | | | | | |
| Domestic Equities | (i) | $ 12,758,589 | $ - | monthly, quarterly | 60-90 days |
| International Equities | (i) | 16,434,599 | - | monthly, quarterly, triennial | 5-90 days |
| Hedge funds: | | | | | |
| Absolute return | (a)(b)(e) | 34,598,429 | - | monthly, quarterly, biannually, annually | 15-90 days |
| Long/short | (a)(b)(c)(f) | 23,638,380 | - | monthly, quarterly, biannually, annually | 45-90 days |
| Private equity: | | | | | |
| Real properties | (d)(g) | 13,739,918 | 2,639,000 | n/a | n/a |
| All others | (d)(h) | 64,487,714 | 29,819,000 | n/a | n/a |
| Total | | $ 165,657,629 | $ 32,458,000 | | |

(a) Includes side pockets and one fund which are illiquid and redeemed when the underlying investments are liquidated.
(b) Includes funds which are subject to gates of 10% - 25%.
(c) Includes funds that are subject to rolling 2 year redemption frequency.
(d) Redemption terms do not apply to private equities as distributions are received when the underlying investments are liquidated.
(e) Absolute return strategy seeks to achieve capital appreciation employing event driven investment strategies that generate attractive risk adjusted returns.
(f) A long/short equity strategy seeks to outperform the broader market averages while minimizing volatility and risk by investing in businesses trading at attractive valuations and short selling stocks in poorly performing, overvalued businesses.
(g) Private equity real properties - opportunistic strategy targets office redevelopments, residential land developments, hotels and resorts, involving some level of repositioning, refinancing or use change.
(h) Private equity others - Diversified investments in various portfolio companies at different stages, industries or regions, providing venture capital and/or restructuring expertise and subsequently selling the company to generate returns.
(i) Includes a fund that has quarterly liquidity after an initial 3 year lock up period.

Private equity funds' unfunded commitments are estimated to be callable as follows:

| Fiscal Years Ending June 30, | Amount |
|---|---|
| 2014 | $ 13,747,000 |
| 2015 | 10,340,000 |
| 2016 | 4,569,000 |
| 2017 | 2,253,000 |
| 2018 | 1,549,000 |
| | $ 32,458,000 |

June 30, 2013 and 2012

**NOTE 6 - PLANT FACILITIES:**

Plant facilities are recorded at cost or estimated fair value at the date of donation, and at June 30, 2013 and 2012 consists of the following:

| | 2013 | 2012 |
|---|---|---|
| Land and land improvements | $ 6,522,695 | $ 6,470,918 |
| Buildings | 112,448,440 | 111,520,575 |
| Equipment and furnishings | 9,653,841 | 8,974,274 |
| Property held for future use | 2,507,965 | 2,507,965 |
| Construction in progress | 5,941,604 | 3,238,136 |
| | 137,074,545 | 132,711,868 |
| Less accumulated depreciation | (51,047,605) | (46,954,294) |
| Net plant facilities | $ 86,026,940 | $ 85,757,574 |

**NOTE 7 - LIFE INCOME AND ANNUITIES PAYABLE:**

Life income and annuities payable of $1,984,083 and $3,448,479 at June 30, 2013 and 2012, respectively, represent actuarially determined liabilities for contractual obligations under gift annuities, unitrusts, and pooled income funds.

**NOTE 8 - NOTE AND BONDS PAYABLE:**

At June 30, 2013 and 2012, bonds payable were comprised of the following:

| | 2013 | 2012 |
|---|---|---|
| Bonds - California Educational Facilities Authority ("CEFA") Series 1997C | $ - | $ 900,000 |
| Bonds - CEFA Series 2001 | - | 5,585,000 |
| Bonds - CEFA Series 2007 | 28,695,000 | 29,130,000 |
| California Municipal Finance Authority ("CMFA") 2013 Tax-exempt Loan | 8,145,000 | - |
| | 36,840,000 | 35,615,000 |
| Less unamortized discount | (131,182) | (12,184) |
| Note and Bonds payable - net | $ 36,708,818 | $ 35,602,816 |
| Current portion | $ 450,000 | $ 675,000 |
| Long-term portion | 36,258,818 | 34,927,816 |
| Note and Bonds payable - net | $ 36,708,818 | $ 35,602,816 |

The CEFA Series 1997C bonds and CEFA Series 2001 bonds were refunded by the CMFA 2013 Tax-exempt Loan.

In October 2007, the College issued CEFA Revenue Bonds Series 2007 in the aggregate principal amount of $30,555,000 due in November 2037. The bonds are due in annual installments ranging from $70,000 to $2,305,000, and bear interest rates ranging from 4.0% to 5.0%. Bonds maturing on or after November 1, 2018 are subject to optional redemption at par plus accrued interest. The bonds were issued for the purpose of financing and refinancing the acquisition, construction, improvement, rehabilitation, renovation, and equipping of certain educational facilities. Refunding proceeds of approximately $16,695,000 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the CEFA Series 1999 and a portion of the CEFA Series 2001 bonds; as a result, the bonds have been legally defeased and the liability for these bonds have been removed from the Statement of Financial Position.

In June 2013, the College signed a CMFA Tax-Exempt Loan agreement not to exceed $50,000,000 that matures July 2043. The College can make monthly draws through July 2016. Interest ranges from 3.25% to 3.50%. The note requires monthly interest only payments through July 2016 and monthly principal and interest payment thereafter. The bonds were issued for the purpose of financing and refinancing the acquisition, construction, improvement and equipping of certain educational facilities, including related administrative facilities, site improvements and parking. Refunding proceeds of approximately $6,323,000 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the CEFA Series 1997C and a portion of the CEFA Series 2001 bonds; as a result, the bonds have been defeased and the liability for these bonds have been removed from the Statement of Financial Position.

June 30, 2013 and 2012

**NOTE 8 - NOTE AND BONDS PAYABLE, CONTINUED:**

Interest expense was $1,650,127 and $1,716,389 for the years ended June 30, 2013 and 2012, respectively. Interest expense includes amortized discount (premium) and cost of issuance of $30,567 and $32,240 in June 30, 2013 and 2012, respectively.

At June 30, 2013, the principal maturities were as follows:

| Fiscal Years Ending June 30, | Principal Amount |
|---|---|
| 2014 | $ 450,000 |
| 2015 | 470,000 |
| 2016 | 1,031,645 |
| 2017 | 1,077,967 |
| 2018 | 1,124,497 |
| Thereafter | 32,685,891 |
| | $ 36,840,000 |

The CEFA Series 2007 bond agreements and CMFA 2013 Tax-exempt Loan contain various restrictive covenants which include the maintenance of certain financial ratios, as defined in the agreements. At June 30, 2013 and 2012, the College was in compliance with all bond and loan covenants.

The College has an unsecured $5,000,000 line of credit with a bank. Any borrowings on the line would bear interest at either a fluctuating rate per annum equal to the higher of: the bank's prime rate, 1.5% above LIBOR, and the Federal Funds Rate plus 1.5%, or a fixed rate per annum determined by the bank to be 1.75% above LIBOR in effect on the first day of the applicable fixed rate. There were no borrowings outstanding on the line at June 30, 2013 and 2012.

The estimated fair value of the College's bonds payable was approximately $29,841,000 and $36,827,000 at June 30, 2013 and 2012, respectively. The fair value was estimated based upon the discounted amount of future cash outflows based on current rates available to the College for debt of the same remaining maturities. The College determined these CEFA bonds to be Level 2 measurements in the fair value hierarchy.

**NOTE 9 - ASSET RETIREMENT OBLIGATION:**

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

The following schedule summarizes asset retirement obligation activity for the years ended June 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Obligations settled | $ (30,885) | $ - |
| Accretion expense | 37,736 | 36,020 |
| | 6,851 | 36,020 |
| Beginning balance | 795,257 | 759,237 |
| Ending balance | $ 802,108 | $ 795,257 |

June 30, 2013 and 2012

**NOTE 10 - NET ASSETS:**

At June 30, 2013 and 2012, net assets consists of the following:

| | 2013 | 2012 |
|---|---|---|
| Unrestricted: | | |
| For operations | $ 15,331,277 | $ 16,445,981 |
| For designated purposes | 22,425 | 10,537 |
| Funds functioning as endowment | 29,422,641 | 24,406,226 |
| Plant facilities | 54,939,863 | 54,328,558 |
| Total unrestricted | $ 99,716,206 | $ 95,191,302 |
| Temporarily Restricted: | | |
| Restricted for specific purposes | $ 10,707,864 | $ 9,274,671 |
| Endowment | 143,228,266 | 130,291,528 |
| Plant facilities | 2,181,951 | 298,647 |
| Annuity and life income contracts and agreements | 3,761,834 | 3,300,223 |
| Total temporarily restricted | $ 159,879,915 | $ 143,165,069 |
| Permanently restricted: | | |
| Endowment | $ 115,204,399 | $ 104,012,981 |
| Loans | 6,273,848 | 6,165,068 |
| Annuity and life income contracts and agreements | 11,854,518 | 10,732,125 |
| Total permanently restricted | $ 133,332,765 | $ 120,910,174 |

At June 30, 2013 and 2012, endowment net assets consists of the following:

| | 2013 | 2012 |
|---|---|---|
| Unrestricted endowment | | |
| Funds functioning as endowment | $ 29,645,840 | $ 25,505,426 |
| Funds with deficiencies | (223,199) | (1,099,200) |
| Total unrestricted endowment funds | 29,422,641 | 24,406,226 |
| Temporarily restricted endowment | | |
| Term endowment | 290,794 | 286,988 |
| Quasi endowment | 2,791,776 | 2,772,610 |
| Portion of endowment funds subject to a time restriction under California UPMIFA | | |
| Without purpose restriction | 128,775,757 | 117,228,247 |
| With purpose restriction | 11,369,939 | 10,003,683 |
| Total temporarily restricted endowment funds | 143,228,266 | 130,291,528 |
| Permanently restricted endowment | 115,204,399 | 104,012,981 |
| Total endowment net assets | $ 287,855,306 | $ 258,710,735 |

June 30, 2013 and 2012

**NOTE 11 - ENDOWMENT:**

The net assets of the College include permanent endowment and funds functioning as endowment. 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 for under the California Uniform Prudent Management of Institutional Funds Act. While funds functioning as endowment have been established by the Board of Trustees to function as endowment, any portion of such funds may be expended.

For the year ended June 30, 2013:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2013 |
|---|---|---|---|---|
| Investment returns: | | | | |
| Earned income/(expense) | $ 3,301,602 | $ 3,806 | $ 61,639 | $ 3,367,047 |
| Change in net appreciation of investments | 13,676,365 | 12,913,766 | - | 26,590,131 |
| | 16,977,967 | 12,917,572 | 61,639 | 29,957,178 |
| Endowment returns distributed | (14,459,578) | - | - | (14,459,578) |
| Net investment returns | 2,518,389 | 12,917,572 | 61,639 | 15,497,600 |
| Other changes in endowed equity: | | | | |
| Contributions | - | 19,166 | 10,788,201 | 10,807,367 |
| Redesignation of net assets | 1,403,045 | - | - | 1,403,045 |
| Matured annuity and life income agreements | 1,094,981 | - | 263,017 | 1,357,998 |
| Adjustments on contributions receivable | - | - | 78,561 | 78,561 |
| Total other changes in endowed equity | 2,498,026 | 19,166 | 11,129,779 | 13,646,971 |
| Net change in endowed equity | 5,016,415 | 12,936,738 | 11,191,418 | 29,144,571 |
| Endowed equity, beginning year | 24,406,226 | 130,291,528 | 104,012,981 | 258,710,735 |
| Endowed equity, ending year | $ 29,422,641 | $ 143,228,266 | $ 115,204,399 | $ 287,855,306 |
| Endowed equity is composed of the following assets at June 30, 2013: | | | | |
| Contributions receivable, net | $ - | $ - | $ 5,566,066 | $ 5,566,066 |
| Investments | 29,422,641 | 143,228,266 | 109,638,333 | 282,289,240 |
| Total endowed equity | $ 29,422,641 | $ 143,228,266 | $ 115,204,399 | $ 287,855,306 |

For the year ended June 30, 2012:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2012 |
|---|---|---|---|---|
| Investment returns: | | | | |
| Earned income/(expense) | $ 2,860,684 | $ 3,664 | $ 31,906 | $ 2,896,254 |
| Change in net appreciation of investments | 9,363,202 | (10,496,593) | (2,545) | (1,135,936) |
| Investment returns | 12,223,886 | (10,492,929) | 29,361 | 1,760,318 |
| Endowment returns distributed | (14,111,456) | - | - | (14,111,456) |
| Net investment returns | (1,887,570) | (10,492,929) | 29,361 | (12,351,138) |
| Other changes in endowed equity: | | | | |
| Contributions | - | - | 1,030,399 | 1,030,399 |
| Redesignation of net assets | 69,824 | 200,000 | - | 269,824 |
| Matured annuity and life income agreements | - | - | 180,104 | 180,104 |
| Adjustments on contributions receivable | - | - | 49,986 | 49,986 |
| Total other changes in endowed equity | 69,824 | 200,000 | 1,260,489 | 1,530,313 |
| Net change in endowed equity | (1,817,746) | (10,292,929) | 1,289,850 | (10,820,825) |
| Endowed equity, beginning year | 26,223,972 | 140,584,457 | 102,723,131 | 269,531,560 |
| Endowed equity, ending year | $ 24,406,226 | $ 130,291,528 | $ 104,012,981 | $ 258,710,735 |
| Endowed equity is composed of the following assets at June 30, 2012: | | | | |
| Contributions receivable, net | $ - | $ - | $ 1,713,876 | $ 1,713,876 |
| Investments | 24,406,226 | 130,291,528 | 102,299,105 | 256,996,859 |
| Total endowed equity | $ 24,406,226 | $ 130,291,528 | $ 104,012,981 | $ 258,710,735 |

June 30, 2013 and 2012

**NOTE 12 - NET STUDENT REVENUES:**

Student revenues for the years ended June 30, 2013 and 2012 consist of the following:

| | 2013 | 2012 |
|---|---|---|
| Tuition and fees | $ 42,074,531 | $ 41,203,367 |
| Room and board | 10,462,190 | 10,466,691 |
| | 52,536,721 | 51,670,058 |
| Less: | | |
| Sponsored student aid | (4,862,172) | (5,983,900) |
| Unsponsored student aid | (9,765,417) | (8,164,910) |
| Net student revenues | $ 37,909,132 | $ 37,521,248 |

Sponsored student aid consists of funds provided by endowment and external entities, whereas unsponsored aid consists of funds provided by the College.

**NOTE 13 - FUND RAISING EXPENSE:**

Included in marketing expense in the Statements of Activities are approximately $3,497,000 and $3,021,000 of fund raising expenses for the years ended June 30, 2013 and 2012, respectively.

**NOTE 14 - OPERATING LEASES:**

The College leases various office equipment with lease terms that expire through 2018. Annual lease payments range from approximately $400 to $32,300. The lease payments for the years ended June 30, 2013 and 2012 were approximately $70,700 and $81,500, respectively. The following is a summary of future minimum rental payments for operating leases that have initial or remaining no cancelable terms in excess of one year as of June 30, 2013:

| Fiscal Years Ending June 30, | Lease Payments |
|---|---|
| 2014 | $ 53,828 |
| 2015 | 48,118 |
| 2016 | 47,800 |
| 2017 | 32,255 |
| 2018 | 16,128 |
| | $ 198,129 |

**NOTE 15 - RELATED PARTIES:**

Trustees support the College with contributions to the College. Total contributions from trustees during fiscal years ended June 30, 2013 and 2012 totaled approximately $5,713,000 and $1,018,000 respectively. At June 30, 2013 and 2012 trustee contributions receivable, net of discount, totaled approximately $6,056,000 and $1,880,000, respectively.

A College Trustee is the CEO of an investment counsel firm which performs accounting, tax reporting, and investment management of the College's Charitable Remainder Trust program. At June 30, 2013 and 2012, the market value of the program totaled approximately $4,831,000 and $4,479,000, respectively. Payments to the firm during fiscal year ended, June 30, 2013 and 2012 totaled approximately $59,000 and $58,000, respectively.

June 30, 2013 and 2012

**NOTE 16 - EMPLOYEE BENEFIT PLANS:**

The College participates in a defined contribution retirement plan which provides retirement benefits for academic employees and certain administrative personnel through Teachers Insurance and Annuity Association, The College Retirement Equity Fund, and Fidelity and Vanguard Mutual Funds. 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, 2013 and 2012 totaled approximately $2,189,000 and $2,142,000, respectively.

The Claremont University Consortium administers a defined benefit plan (“The Plan”) covering substantially all non-academic employees of the College, along with those of the other Claremont Colleges (Note 17). The Plan is in accordance with the Employer Retirement Income Security Act of 1974. The benefits are based on years of service, career average compensation, and amount of employee contributions. Plan assets are invested in a diversified group of equity and fixed-income securities. The College’s allocation of the net pension (credit) cost for the years ended June 30, 2013 and 2012 was approximately $106,000 and $94,000, respectively. A decision was made to curtail the Plan in June 2004. Under the curtailment the accrued benefits earned as of 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 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 that provides common student and administrative services, including certain central facilities utilized by all The Claremont Colleges. The members of the group share the costs of these services and facilities. Amounts paid by the College for such services and use of facilities for the years ended June 30, 2013 and 2012 totaled approximately $3,772,000 and $3,571,000, respectively.

**NOTE 18 - COMMITMENTS AND CONTINGENCIES:**

**Contracts**
The College has remaining commitments on a contract for the design of an addition to an existing building to accommodate faculty offices totaling approximately $522,000 at June 30, 2013.

On December 7, 2012, the College entered into a purchase sales agreement to purchase 12.21 acres of property from the Claremont University Consortium for approximately $10,267,000 with escrow to close by June 6, 2015.

**Litigation**
Occasionally, the College is involved in lawsuits arising in the ordinary course of its operations. In the opinion of management, the ultimate resolution of these lawsuits is not expected to have a material effect on the College’s financial position or change in net assets.

**Federal**
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.

June 30, 2013 and 2012

**NOTE 19 - SUBSEQUENT EVENT:**

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.

The College has evaluated subsequent events through October 29, 2013, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that need to be disclosed.


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