PomonaCollege

Audited Financial Statements

For the Year Ended
June 30, 2011

KPMG

POMONA COLLEGE

Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

The Board of Trustees
Pomona College:

We have audited the accompanying statement of financial position of Pomona College (the College) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pomona College as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in note 2 to the accompanying financial statements of the College, net assets as of June 30, 2010 have been restated to correct misstatements from the College's previously issued financial statements, which were audited by other auditors.

In accordance with *Government Auditing Standards*, we have issued our report dated December 9, 2011 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

December 9, 2011

POMONA COLLEGE

Statement of Financial Position

June 30, 2011

(In thousands of dollars)

Assets		
Cash and cash equivalents	$	3,066
Accounts and other receivables, net of allowance		11,147
Prepaid expenses and deposits		1,322
Short-term investments		91,835
Contributions receivable, net		48,120
Notes receivable, net of allowance		15,309
Long-term investments:		
Pooled		1,770,135
Separately invested		84,760
Cash restricted for future property, plant, and equipment		2,310
Property, plant, and equipment, net of accumulated depreciation		340,874
Total assets	$	2,368,878
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	11,473
Accrued payroll and other liabilities		15,313
Life income and annuities obligation		65,050
CEFA bonds payable		193,113
Government advances for student loans		5,074
Funds held in trust for others		10,831
Total liabilities		300,854
Net assets:		
Unrestricted		1,013,269
Temporarily restricted		741,560
Permanently restricted		313,195
Total net assets		2,068,024
Total liabilities and net assets	$	2,368,878

See accompanying notes to financial statements.

POMONA COLLEGE

Statement of Activities

Year ended June 30, 2011

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Student revenues	$ 78,475	—	—	78,475
Less student financial aid	(26,898)	—	—	(26,898)
Net student revenues	51,577	—	—	51,577
Federal grants and contracts	2,306	—	—	2,306
Private gifts and grants	9,074	18,131	9,019	36,224
Private contracts	1,028	—	—	1,028
Realized gains, appropriated	64,348	—	—	64,348
Sales and services of education departments	454	—	—	454
Other revenues	431	—	62	493
	77,641	18,131	9,081	104,853
Net assets released from restriction	40,772	(40,674)	(98)	—
Transfers among net asset categories	(552)	564	(12)	—
Total revenues, gains, and other support	169,438	(21,979)	8,971	156,430
Expenses:				
Instruction	53,804	—	—	53,804
Research	3,016	—	—	3,016
Public service	1,167	—	—	1,167
Academic support	13,074	—	—	13,074
Student services	13,705	—	—	13,705
Institutional support	23,350	—	—	23,350
Auxiliary enterprises	20,500	—	—	20,500
Total expenses	128,616	—	—	128,616
Increase (decrease) in net assets from operating activities	40,822	(21,979)	8,971	27,814
Nonoperating activities:				
Net realized and unrealized gain on investments	125,574	158,442	800	284,816
Investment income	10,087	145	970	11,202
Realized gains appropriated	(64,348)	—	—	(64,348)
Changes in actuarially determined gift liabilities	8,089	6,026	7,297	21,412
Comprehensive gain on staff retirement plan	1,109	—	—	1,109
Annuity and life income funds released	303	(303)		—
Increase in net assets from nonoperating activities	80,814	164,310	9,067	254,191
Increase in net assets	121,636	142,331	18,038	282,005
Net assets, beginning of year, as restated (note 2)	891,633	599,229	295,157	1,786,019
Net assets, end of year	$ 1,013,269	741,560	313,195	2,068,024

See accompanying notes to financial statements.

POMONA COLLEGE

Statement of Cash Flows

Year ended June 30, 2011

(In thousands of dollars)

Cash flows from operating and nonoperating activities:		
Increase in net assets	$	282,005
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation		13,162
Accretion of interest on CEFA bonds		2,278
Amortization of bond premium		(1,047)
Contributions restricted for long-term investment		(25,736)
Net realized and unrealized gain on investments		(284,816)
Noncash gifts		(960)
Adjustments of actuarial liabilities		(21,412)
Change in assets and liabilities:		
Increase in accounts receivable		(8,539)
Increase in contributions receivable		(14)
Decrease in prepaid expenses and deposits		344
Increase in accounts payable		876
Increase in accrued payroll and other liabilities		(439)
Net cash used in operating activities		(44,298)
Cash flows from investing activities:		
Additions to property, plant, and equipment		(46,345)
Purchase of investments		(729,117)
Sale of investments		794,937
Disbursements of student loans		(1,005)
Collections of student loans		2,098
Disbursements of trust deed loans		(1,254)
Collections of trust deed loans		1,284
Net cash provided by investing activities		20,598
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment		17,705
Investment in life income		7,039
Investment in plant		1,690
Government advances for student loans		(2)
Payments on CEFA bonds payable		(2,285)
Investment income restricted for long-term investment		2,163
Payments on life income and annuities payable		(2,692)
Net cash provided by financing activities		23,618
Net change in cash		(82)
Cash and cash equivalents, beginning of year		3,148
Cash and cash equivalents, end of year	$	3,066
Supplementary cash flow information:		
Cash paid during the year for interest	$	6,744

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Organization

Founded in 1887, Pomona College (the College) is an independent, coeducational liberal arts college offering instruction in all major fields of the fine arts, humanities, social sciences, and natural sciences. The College has an enrollment of approximately 1,550 students and a student-faculty ratio of seven to one.

Pomona College is a member of an affiliated group of colleges known as The Claremont Colleges. Each affiliated college is a separate corporate entity governed by a separate board of trustees. The Claremont University Consortium, a member of this group, acts as the coordinating institution, which provides common student and administrative services including certain central facilities utilized by all the colleges. The costs of these services and facilities are shared by the members of the group.

(b) Basis of Presentation

The accompanying financial statements of the College are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

(c) Classification of Net Assets

The accompanying financial statements present information regarding the College's financial position and activities according to the following three net asset categories:

Unrestricted Net Assets

Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions, contingent upon specific performance of a future event or a specific passage of time before the College may spend the funds, and earnings on endowment funds that have not yet been appropriated.

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor restrictions requiring that the assets be maintained in perpetuity. The investment income generated from these assets is temporarily restricted by law until appropriated by the board of trustees in support of the College's programs and operations.

(d) Cash and Cash Equivalents

Cash includes all short-term, highly liquid investments with original maturities of three months or less when purchased. Cash and cash equivalents representing assets held in the investment pool are included in long-term investments (see note 6).

The College maintains cash in various financial institutions, which periodically exceeds federally insured limits.

(e) Investments

Investments are reflected at fair value. The College uses net asset value (NAV) as a practical expedient for determining fair value of its financial instruments, in cases where appropriate criteria are met.

(f) 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, the board of trustees has adopted a spending policy for pooled investments whereby annually, if the ordinary income from the pooled investments is insufficient to provide the full amount of investment return specified by the adopted spending policy, the balance may be appropriated from cumulative realized gains of the pooled investments.

(g) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, representing the purchase price or fair market value at the date of gift, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets (generally, 7 years for equipment and land improvements and 40 years for buildings). Construction in progress will be depreciated over the useful lives of the respective assets when they are ready for their intended use. The costs and accumulated depreciation of assets sold or retired are removed from the accounts and the related gains and losses are included in the statement of activities.

(h) Art Collection

The College does not record or capitalize its art collections. The fine art collections of the College are housed in the Pomona College Museum of Art. Among important holdings are the Kress Collection of 15th and 16th century Italian panel paintings; over 5,000 examples of Pre-Columbian to 20th century American Indian art and artifacts; and a large collection of American and European prints, drawings and photographs. All works in the collection are catalogued, preserved, cared for, and monitored according to professional museum standards, and are subject to a policy that requires proceeds from deaccession to be used exclusively for acquisition.

(i) Life Income and Annuities Obligation

The actuarial liability for life income and annuity contracts and agreements are based on the present value of future payments, discounted at a rate that is commensurate with the risks involved ranging from 2.25% to 7.20% and over estimated lives according to the Annuity 2000 Mortality Table.

(j) Revenue and Expense Recognition

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 and are included in accrued payroll and other liabilities on the

(Continued)

statement of financial position. Revenues from federal grants and contracts are recorded as allowable expenditures under such agreements are incurred. Contributions, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate class 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. Contributions to be received after one year are discounted at an appropriate discount rate. An allowance for uncollectible contributions is estimated based upon such factors as prior collection history, type of contribution, and nature of fund-raising activity. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments, investment income, and other revenues are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation.

(k) Allocation of Certain Expenses

The statement of activities presents expenses by functional classification. Depreciation expense, operation, and maintenance of plant and interest expense are allocated based on square footage occupancy of college facilities. Included in institutional support expense for the year ended June 30, 2011 is $7,165,000 of expenses related to fund-raising.

(l) Expiration of Donor-Imposed Restrictions

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction 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, as unrestricted support, donor imposed restricted contributions whose restrictions are met in the same period as received. It is the College’s policy to lift the restrictions on contributions of cash or other assets received for the acquisition of long-lived assets when the long-lived assets are placed into service.

(m) Estates and Trusts

The College is named beneficiary of various estates in probate. Unless the ultimate amount available for distribution can be determined before the close of the probate proceedings, the College does not record these amounts until the time of asset distribution. Trusts in which the College is named as irrevocable beneficiary, but is not a trustee, are recorded when the College is notified by the trustee and the ownership percentage and valuation are determined.

(n) Estimates

The preparation of 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 disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amount of revenues, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

(o) Income Taxes

The College is exempt for federal income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal and state income taxes. However, the College is subject to income taxes on any income that is derived from a trade or business regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic financial statements taken as a whole.

The preparation of financial statements in conformity with GAAP prescribes for all entities, including pass-through entities, minimum thresholds for financial statement recognition of a position taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction) and requires certain expanded tax disclosures. No such uncertain tax positions exist for the College at June 30, 2011. The College files income tax returns in the U.S. federal and various state jurisdictions. With few exceptions, the College is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2007.

(2) Restatement

In preparing the College's June 30, 2011 financial statements, management identified accounting errors requiring correction of prior period balances. As such, the College's June 30, 2010 net assets have been restated for the following (in thousands of dollars):

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Net assets, at June 30, 2010, as previously reported	$ 829,153	653,466	303,400	1,786,019
(1) Properly record contribution based on donor intentions	31,867	(23,624)	(8,243)	—
(2) Properly record accumulated appreciation on endowment	30,613	(30,613)	—	—
Net assets, at June 30, 2011, as restated	$ 891,633	599,229	295,157	1,786,019

Certain footnotes have been revised as a result of the correction of prior period balances.

(3) Net Student Revenues

Student revenues for the year ended June 30, 2011, in thousands of dollars, consist of the following:

Tuition and fees	$	60,497
Room and board		17,978
Gross student revenues		78,475
Less:		
Sponsored financial aid		(13,310)
Unsponsored financial aid		(13,588)
Student financial aid		(26,898)
Net student revenues	$	51,577

"Sponsored" financial aid consists of funds provided by external entities (including donors of restricted funds), whereas "unsponsored" aid consists of funds provided by the College.

(4) Accounts and Other Receivables

Accounts and other receivables, net of allowance at June 30, 2011, in thousands of dollars, are as follows:

Private gifts and grants	$	822
Investment income		9,423
Federal grants and contracts		691
Sales and other		224
		11,160
Less allowance for doubtful accounts		(13)
Accounts and other receivables, net of allowance	$	11,147

(5) Notes Receivable

Notes receivable at June 30, 2011, in thousands of dollars, are as follows:

Loans receivable from students	$	15,849
Less allowance for doubtful accounts		(540)
Notes receivable, net of allowance	$	15,309

Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition, could not be made without incurring excessive costs.

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(6) 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 recorded after discounting, at rates ranging from 2.25% to 3.00%, to the present value of the future cash flows. Unconditional promises to give received during the year ended June 30, 2011 have been discounted at credit-adjusted rates in accordance with Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*.

The College has been named remainderman in certain split-interest agreements. These trust agreements require that the trustee make annual or more frequent payments to the beneficiaries. Upon the death of the beneficiaries or other termination of the trusts, the remaining trust assets will be distributed to the College and other remaindermen as stipulated in the trust agreements. The College has recorded its beneficial interest in these split-interest agreements based on the present value of future cash flows using discount rates ranging from 5.00% to 7.20%. The actuarial assumption used in this calculation is based on the expected return on assets in effect at the date of the valuation. The underlying trust assets are valued at fair value and consist primarily of securities that are traded on the ready market.

At June 30, 2011, unconditional promises to give, in thousands of dollars, are expected to be realized in the following periods:

In one year or less	$	15,341
Between one year and five years		13,619
More than five years		3,000
		31,960
Less discount		(1,654)
Pledged contributions		30,306
Split-interest agreements		17,814
Contributions receivable, net	$	48,120

Unconditional promises to give and split-interest agreements at June 30, 2011, in thousands of dollars, have the following restrictions:

Endowment for programs, activities, and scholarships	$	11,247
Building construction		15,973
Education and general		22,554
		49,774
Less discount		(1,654)
Contributions receivable, net	$	48,120

(7) Investments

(a) Fair Value Measurement

The fair value of the College's financial instruments as of June 30, 2011 represents management's best estimates of the amounts that would be received to sell those assets in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there are little, if any observable inputs, management's own judgments about the assumptions of market participants were used in pricing the asset. Those judgments are developed by management based on the best information available in the circumstances.

Although the College uses its best judgment in determining the fair value of investments, 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.

(Continued)

The fair value of investments at June 30, 2011, in thousands of dollars, is as follows:

Pooled investments:		
Cash and cash equivalents	$	66,880
U.S. equities		262,341
Non-U.S. equities		180,978
Emerging markets		107,548
Fixed income		195,278
Venture capital		174,214
Private equity		165,358
Absolute return		380,274
Real assets[1]		237,264
Total long-term investments – pooled		1,770,135
Separately invested:		
Cash and cash equivalents		6,232
U.S. equities		28,792
Non-U.S. equities		2,231
Fixed income		34,480
Real assets[1]		3,662
Other		9,363
Total long-term investments – separately invested		84,760
Short-term investments (cash and cash equivalents)		91,835
Cash restricted for investment in property, plant, and equipment		2,310
	$	1,949,040

[1] Real assets include marketable hard assets, private real estate/timber, and private oil and gas/energy.

The College's investment income net of related expenses for the year ended June 30, 2011 was as follows, in thousands of dollars:

Interest and dividends	$	15,409
Less investment expenses		(4,207)
Investment income		11,202
Net realized and unrealized gains on investments		284,816
Total investment income, net	$	296,018

(b) Absolute Return Strategies

Investments utilizing an absolute return strategy are less liquid than the College's other investments. These investments typically include certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments may result in loss due to changes in the market (market risk). The following table summarizes these investments by investment strategy type at June 30, 2011, in thousands of dollars.

Absolute return strategy	Number of funds	Cost	Fair value
Diversified arbitrage	6	$ 73,516	125,483
Long-short equity	7	137,679	173,894
Event arbitrage	2	26,921	56,727
Distressed securities	1	15,000	24,170
	16	$ 253,116	380,274

(c) Pending Purchases and Sales

At June 30, 2011, the College had pending security purchases and sales of approximately $403,000 and $782,000, respectively, included in separately invested assets on the statement of financial position and a pending redemption of $8,000,000 included in accounts and other receivables on the statement of financial position.

(d) Pooled Fund

Where permitted by gift agreements and/or applicable government regulations, investments are pooled. Pooled investments and allocations of pooled investment income are accounted for on a unit-fair value method. The following table summarizes data pertaining to this method for the year ended June 30, 2011:

Unit fair value at end of year	$	860.01
Units owned:		
Unrestricted:		
Funds functioning as endowment		877,140
Designated for annuity and life income funds		58,266
Total unrestricted		935,406
Temporarily restricted:		
Restricted for specific purposes		5,962
Funds functioning as endowment		13,530
Annuities and life income funds		8,263
Total temporarily restricted		27,755
Permanently restricted:		
Endowment funds		1,068,549
Annuities and life income funds		26,554
Total permanently restricted		1,095,103
Total units		2,058,264
Weighted average units		2,040,371
Net pooled investment income per weighted average unit	$	6.68

(e) Fair Value Hierarchy

The College’s fair value hierarchy 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 – Unadjusted quoted prices in active markets that are accessible at the measurement date of identical, unrestricted assets. Assets and liabilities classified as Level 1 generally include listed equities, futures, options, and certain fixed income securities.

Level 2 – Quoted prices for markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly. Assets and liabilities classified as Level 2 generally include equity swaps, forward contracts, certain fixed income securities, over-the-counter option contracts, and certain other derivatives.

Level 3 – Pricing inputs are unobservable for the asset and reflect the management's own assumptions to determine fair value. Assets classified as Level 3 include private investments that are supported by little or no market activity.

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, short-term investments, certain domestic and international equities, certain emerging markets, and certain domestic fixed income are valued based on quoted market prices, and are, therefore, classified within Level 1.

The investments in certain international equities, certain emerging markets, domestic fixed income, international fixed income, and certain real properties are valued based on quoted market prices of comparable assets, and are, therefore, classified within Level 2.

The investments in private equity, long/short hedge funds, venture capital, absolute return hedge funds, certain real assets, certain investment funds focused on domestic and international equities, and international fixed incomes are valued utilizing unobservable inputs, and are, therefore, classified within Level 3. These investments 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 general partners of the underlying investment partnerships generally value their investments at fair value. Investments with no readily available market are generally valued according to the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, and/or the income approach. Consideration is also given to financial condition and operating results of the investment, the amount that the investment partnerships can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. An investment can be carried at acquisition price (cost) if little has changed since the initial investment of the 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.

The following table summarizes the valuation of the College's investments, in thousands of dollars, by the fair value hierarchy levels as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Pooled investments:				
Cash and cash equivalents	$ 66,880	—	—	66,880
U.S. equities	110,719	—	151,622	262,341
Non-U.S. equities	22,635	158,304	39	180,978
Emerging markets	46,572	60,976	—	107,548
Fixed income	54,858	112,240	28,180	195,278
Venture capital	—	—	174,214	174,214
Private equity	—	—	165,358	165,358
Absolute return	—	—	380,274	380,274
Real assets[1]	—	62,587	174,677	237,264
Total pooled investments	301,664	394,107	1,074,364	1,770,135
Other invested assets:				
Cash and cash equivalents	100,377	—	—	100,377
U.S. equities	28,788	—	4	28,792
Non-U.S. equities	2,231	—	—	2,231
Fixed income	12,050	22,430	—	34,480
Real assets[1]	—	—	3,662	3,662
Other	54	9,305	4	9,363
Total other invested assets	143,500	31,735	3,670	178,905
Total	$ 445,164	425,842	1,078,034	1,949,040

[1] Real assets include marketable hard assets, private real estate/timber, and private oil and gas/energy.

The following is a reconciliation of Level 3 assets for which unobservable inputs were used to determine fair value. The table represents the activity of Level 3 securities held at the beginning and the end of the period, in thousands of dollars:

	Beginning Balance at June 30, 2010	Realized gains (losses)	Changes in unrealized gains (losses)	Net purchases (sales and settlements)	Net transfers (out) in of Level 3	Ending balance at June 30, 2011
Pooled investments:						
U.S. equities	$ 119,824	335	39,463	(8,000)	—	151,622
Non-U.S. equities	2,130	102	495	16	(2,704)	39
Emerging markets	9,578	—	2,642	—	(12,220)	—
Fixed income	26,819	—	1,361	—	—	28,180
Venture capital	147,822	6,511	17,032	2,849	—	174,214
Private equity	144,689	6,278	21,455	(7,064)	—	165,358
Absolute return	362,535	7,900	37,712	(27,873)	—	380,274
Real assets[1]	140,632	13,024	31,743	10,370	(21,092)	174,677
Total pooled investments	954,029	34,150	151,903	(29,702)	(36,016)	1,074,364
Other invested assets:						
U.S. equities	221	21	(52)	(186)	—	4
Fixed income	20	(38)	39	(3)	(18)	—
Real assets[1]	3,541	—	(89)	210	—	3,662
Other	6	(2)	—	—	—	4
Total other invested assets	3,788	(19)	(102)	21	(18)	3,670
Total Level 3 assets	$ 957,817	34,131	151,801	(29,681)	(36,034)	1,078,034

[1] Real assets include marketable hard assets, private real estate/timber, and private oil and gas/energy

Total Level 3 asset gains or losses for 2011 included in income attributable to the change in unrealized gains (losses) relating to assets and liabilities held at June 30, 2011 (in thousands)	$ 177,917

The College uses the NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Per Accounting Standards Update (ASU) 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset per Share (or Its Equivalent)*, the following table lists investments in other investment companies (in partnership format) by major category, in thousands of dollars:

	Strategy	NAV in funds	# of Funds	Remaining life	Amount of unfunded commitments[2]	Timing to draw down commitments	Redemption terms	Redemption restrictions	Redemption restrictions in place at year-end
Venture/growth equity	Venture capital and growth equity fund primarily in the U.S	$ 174.2	74	1 – 15 years	62.2	up to 6 years	N/A [1]	N/A [1]	N/A [1]
Private equity/distressed	Buyout and distressed funds in U.S. and international.	165.3	43	1 – 15 years	64.8	up to 6 years	N/A [1]	N/A [1]	N/A [1]
Private real estate/timber	Real estate and timberland funds primarily in the U.S. and developed Europe.	82.5	21	1 – 15 years	39.0	up to 6 years	N/A [1]	N/A [1]	N/A [1]
Private oil and gas/energy	Funds engaged in development of energy and other natural resources.	92.2	19	1 – 15 years	38.8	up to 6 years	N/A [1]	N/A [1]	N/A [1]
Total private investments		514.2	157		204.8				
Absolute return and long/short equity	Long/short and diversified arbitrage funds investing globally.	380.3	16	N.A	—	N/A	Ranges between quarterly with 30 days' notice, to annually with 180 days' notice.	11 funds have initial lockup periods ranging from 12 – 39 months, 2 funds have gates ranging from 25% quarterly to 33% semiannually.	3 funds have lockups with 9 months till expiration, 1 fund has a rolling annual lockup, and 2 funds have gates.
Comingled funds	Long-only equity funds, emerging markets, fixed income, energy and other natural resources with various regional mandates.	461.7	9	N.A	—	N/A	Ranges between semimonthly with 5 days' notice, to quarterly with 90 days' notice.	2 funds have one-year lockup period. 2 funds limit redemptions to one-third of original capital contribution per year (gates).	2 funds have one-third annual gates in place.
Total		$ 1,356	182		205				

[1] These funds are in private equity structure with no ability to be redeemed.

[2] Of these commitments, approximately $78,000,000 is due within one year.

(Continued)

(8) Property, Plant, and Equipment

Property, plant, and equipment at June 30, 2011, in thousands of dollars, are as follows:

Land	$	4,279
Land improvements		15,898
Buildings		424,881
Equipment		41,516
Construction in progress		1,225
		487,799
Less accumulated depreciation		(146,925)
Property, plant, and equipment, net of accumulated depreciation	$	340,874

Outstanding commitments for construction contracts amounted to approximately $4,021,000 as of June 30, 2011.

(9) CEFA Bonds Payable

Bonds payable, in thousands of dollars, issued through the California Educational Facilities Authority (CEFA), and associated interest rates and maturities at June 30, 2011 are as follows:

	Interest rates	Maturity dates		Principal amount
Series 2009A	5.0%	2019, 2024	$	62,290
Series 2008A	4.4%-5.0%	2018		61,438
Series 2005A	4.4%-5.2%	2018-2045		50,836
Series 2001	4.0%-5.0%	2010-2017		7,700
Series 1999A	4.0%-4.4%	2010-2017		2,525
				184,789
Plus unamortized premium				8,324
CEFA bonds payable			$	193,113

Schedule of maturities:		
Years ending:		
2012	$	2,375
2013		2,490
2014		1,250
2015		1,305
2016		1,370
2017 – 2045		175,999
	$	184,789

At June 30, 2011, the College had $2,310,000 of unspent proceeds from the CEFA 2009A and 2008A held in trust accounts by U.S. Bank (the Trustee), and whose use is limited to capital expenditures.

The CEFA agreements contain covenants relating to maintenance of the College, insurance and other general items.

At June 30, 2011, the fair value of the College's CEFA bonds payable was approximately $202,292,000. Fair value was estimated based upon dealer quotes for similar instruments.

(10) Funds Held in Trust for Others

Funds held in trust for others at June 30, 2011, in thousands of dollars, are as follows:

Revocable trusts	$	206
Other remaindermen trusts payable		10,625
Total funds held for others	$	10,831

(Continued)

(11) Net Assets

At June 30, 2011, net assets consist of the following, in thousands of dollars:

Unrestricted:		
Available for operations	$	95
For plant and other designated purposes		88,183
Designated for annuity and life income funds		23,554
Funds functioning as endowment		753,676
Invested in property, plant, and equipment, net of related debt		147,761
Total unrestricted		1,013,269
Temporarily restricted:		
Restricted for specific purposes		31,888
Annuity and life income funds		34,283
Funds functioning as endowment		675,389
Total temporarily restricted		741,560
Permanently restricted:		
Loan funds		16,583
Annuity and life income funds		25,223
Endowment funds		271,389
Total permanently restricted		313,195
Total net assets	$	2,068,024

(12) Retirement Plans

The College participates with other members of The Claremont Colleges in two retirement plans administered by the Claremont University Consortium – a defined contribution plan and a defined benefit plan. These plans cover all of the College’s eligible employees.

The defined contribution plan provides retirement benefits for all employees through Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Under this plan, College contributions are used to purchase fixed and/or variable annuities offered by TIAA-CREF. Vesting provisions are full and immediate. Benefits commence upon retirement and preretirement survivor death benefits are provided. In conjunction with this plan, employees are able to contribute a portion of their salary into a tax-deferred annuity account and invest such assets in mutual funds offered by TIAA-CREF, Fidelity Investments Institutional Services Company, Inc., or The Vanguard Group.

Prior to July 1, 2005, certain retirement-eligible employees participated in a defined benefit plan, wherein the benefits were based on years of service, compensation, and the amount of employee contributions, if any. On June 30, 2005, the plan was frozen and all participants were immediately eligible to become participants in the defined contribution plan. The defined benefit plan continues to be funded in accordance with Employment Retirement Income Security Act of 1974 (ERISA) and for the year ended June 30, 2011, the plan has met the minimum funding requirements. Plan assets are invested in a diversified group of equity and fixed-income securities, in an insurance company's separate and general accounts. At June 30, 2011, the College's allocation of net pension costs was approximately $484,000. Also at June 30, 2011, the College had a reserve for future funding payments of approximately $2,585,000 that was included in accrued payroll and other liabilities on the statement of financial position and approximately $1,990,000 related to contributions made by employees to the College's 457(b) Plan that were included in separately invested assets and accrued payroll and other liabilities on the statement of financial position.

For the year ended June 30, 2011, the College's contributions to these plans amounted to approximately $3,936,000. Also included in the statement of activities for the year ended June 30, 2011 is a comprehensive gain of $1,109,000 relating to the defined benefit plan. This gain represents the amount by which the accumulated plan assets exceeded the plan benefits at June 30, 2011.

(13) Workers' Compensation

The College participates with other members of The Claremont Colleges in collective insurance agreements including self-insurance for workers' compensation. At June 30, 2011, the College has approximately $391,000 in accounts payable to provide for payment of claims pending. Management believes that the ultimate disposition of these or other claims would not result in any material adjustments to the financial statements.

(14) 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 (UPMIFA). 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.

The College's endowment consists of approximately 1,800 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The board of trustees of the College has interpreted the UPMIFA as permitting the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowments; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

(b) Return Objective and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a custom benchmark that reflects the College's current asset allocation targets and a simple benchmark composed of 85% of the S&P 500 Index and 15% of the Barclays Capital Government/Credit Bond Index, while assuming a moderate level of investment risk.

The College expects its endowment funds to attain, over time and within acceptable risk levels, an average annual real rate of return of approximately 7.00%, net of all investment management and related fees and without regard to whether the return is in the form of income or capital gains. Actual returns in any given year may vary from this amount.

(c) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(d) Spending Policy and How the Investment Objectives Relate to Spending Policy

The College has a policy of appropriating for distribution each year 4.50% to 5.50% of its endowment funds' average fair value over the prior 12 quarters through June 30 one year prior to the beginning of the fiscal year, which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to maintain its purchasing power

(Continued)

by growing at a rate at least equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return. In May 2010, the board of trustees approved a two-year deviation from the College's endowment payout policy to permit the 12-quarter average spending rate to fall below 4.50% and to permit the growth in spending per unit to fall below 4.00%. The temporary reduction in endowment payout was a response to the impact of the 2008 financial crisis on the value of the endowment. For the year ended June 30, 2011, the board of trustees authorized distributions of $64,348,000, based on an approved spending rate of 3.91%, for current operations from the realized investment gains of pooled investments.

Endowment net assets consist of the following at June 30, 2011, in thousands of dollars:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(750)	963	271,389	271,602
Board-designated endowment funds		182,738	—	—	182,738
Accumulated unappropriated gains		571,688	674,426	—	1,246,114
Total endowment net assets	$	753,676	675,389	271,389	1,700,454

Changes in endowment net assets for the year ended June 30, 2011 are as follows, in thousands of dollars:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets (restated), June 30, 2010	$ 649,898	547,701	257,235	1,454,834
Pooled investment returns:				
Earned income	10,761	—	—	10,761
Net realized and unrealized gains on investments during the year	124,964	157,456	—	282,420
Total pooled investment returns	135,725	157,456	—	293,181
Distributions per spending policy	(64,348)	—	—	(64,348)
Net pooled investment returns appropriated to pool	71,377	157,456	—	228,833
Other changes in endowment:				
Gifts	187	50	10,519	10,756
Releases, changes, losses, and transfers per donor restrictions	1,223	937	2,739	4,899
Endowment income reinvested	235	1	896	1,132
Appropriation of endowment assets for expenditure	30,756	(30,756)	—	—
Total other changes in endowment	32,401	(29,768)	14,154	16,787
Total changes in endowed equity	103,778	127,688	14,154	245,620
Endowment net assets, June 30, 2011	$ 753,676	675,389	271,389	1,700,454

(e) *Funds with Deficits*

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. Deficits of this nature that are reported in unrestricted net assets were $750,000 as of June 30, 2011. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(15) Affiliated Institutions

The amounts paid by the College to Claremont University Consortium for the common student and administrative services and the use of facilities for the year ended June 30, 2011 totaled $6,722,000.

(16) Commitments and Contingencies

(a) *Line of Credit*

At June 30, 2011, the College had a $50,000,000 line of credit, which expires on November 30, 2011. Any borrowings on the line would bear interest at a rate set by the bank (2.25% per annum at June 30, 2011) and is subject to change from time to time. There were no borrowings outstanding on the line at June 30, 2011.

(b) *Litigation*

The College is involved in claims, including those covered by self-insurance, and occasional lawsuits arising in the ordinary course of its operations. In the opinion of management, the ultimate resolution of these claims and lawsuits are not expected to have a material effect on the College's financial position or change in net assets.

(c) *Federal Funding*

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

(17) Subsequent Events

In July 2011, the College completed a new municipal bond financing through the CEFA in the par amount of $7,310,000. Proceeds from the bonds were placed in an irrevocable escrow fund to be applied to refund and affect the defeasance of $7,700,000 par value of CEFA 2001 Series bonds.

Subsequent events have been evaluated through December 9, 2011, which is the date the financial statements were issued.