PomonaCollege

Audited Financial Statements

For the Year Ended
June 30, 2012

POMONA COLLEGE

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

POMONA COLLEGE

Statement of Activities

Year ended June 30, 2012

(In thousands of dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total

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
Endowment income appropriated for operations		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:					
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POMONA COLLEGE

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands of dollars)

		2012	2011
Cash flows from operating and nonoperating activities:			
Increase (decrease) in net assets	$	(21,016)	282,005
Adjustments to reconcile change in net assets to net cash used in operating activities:			

(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 1,560 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).

(Continued)

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)

(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 op

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Notes to Financial Statements

June 30, 2012 and 2011

expected return on assets in effect at the date of the valuation. The underlying trust assets are valued at fair 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.

The fair value of investments at June 30, 2012 and 2011, in thousands of dollars, is as follows:

		2012	**2011**
Pooled investments:			
Cash and cash equivalents	$	37,832	66,880

The College's investment income net of related expenses for the years ended June 30, 2012 and 2011 was as follows, in thousands of dollars:

		2012	2011
Interest and dividends	$	14,541	15,409
Less investment expenses		(5,166)	(4,207)
Investment income		9,375	11,202

assets on the statement of financial position and as of June 30, 2011, 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 years ended June 30, 2012 and 2011:

		2012	2011
Unit fair value at end of year	$	843.61	860.01
Units owned:			
Unrestricted:			
Funds functioning as endowment		877,337	877,140
Designated for annuity and life income funds		64,124	58,266
Total unrestricted		941,461	935,406
Temporarily restricted:			
Restricted for specific purposes		6,068	5,962
Funds functioning as endowment		13,571	13,530
Annuities and life income funds		8,299	8,263
Total temporarily restricted		27,938	27,755
Permanently restricted:			
Endowment funds		1,079,459	1,068,549
Annuities and life income funds		28,089	26,554
Total permanently restricted		1,107,548	1,095,103
Total units		2,076,947	2,058,264
Weighted average units		2,065,430	2,040,371
Net pooled investment income per weighted average unit	$	5.77	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

(Continued)

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, 2012 and 2011:

		2012		
	Level 1	**Level 2**	**Level 3**	**Total**
Pooled investments:				
Cash and cash equivalents	$ 37,832	—	—	37,832

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Pooled investments:				
Cash and cash equivalents	$ 66,880	—	—	66,880
U.S. equities	63,527	—	151,622	215,149
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	47,192	62,587	174,677	284,456
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	26,924	—	4	26,928
Non-U.S. equities	2,231	—	—	2,231
Fixed income	12,050	22,430	—	34,480
Real assets	1,864	—	3,662	5,526
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

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 end of the period, in thousands of dollars:

	June 30, 2012				
Beginning	Realized	Changes in		Net transfers	Ending

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June 30, 2012 and 2011

	June 30, 2011						
	Beginning balance at June 30, 2010	**Realized gains (losses)**	**Changes in unrealized gains (losses)**	**Purchases**	**Sales**	**Net transfers out in of Level 3**	**Ending balance at June 30, 2012**
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	20,723	(17,874)	—	174,214
Private equity	144,689	6,278	21,455	11,861	(18,925)	—	165,358
Absolute return	362,535	7,900	37,712	20,000	(47,873)	—	380,274
Real assets	140,632	13,024	31,743	31,059	(20,689)	(21,092)	174,677
Total pooled investments	954,029	34,150	151,903	83,659	(113,361)	(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	3,541	—	(89)	210	—	—	3,662
Other	6	(2)	—	—	—	—	4
Total other invested assets	3,788	(19)	(102)	210	(189)	(18)	3,670
Total Level 3 assets	$ 957,817	34,131	151,801	83,869	(113,550)	(36,034)	1,078,034

Change in unrealized gains (losses) for the period included in changes in net assets for assets still held at the reporting date (in thousands) $ 177,917

(Continued)

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 millions of dollars:

	Amount of	**Timing to**	**Redemption restrictions**

(7) Property, Plant, and Equipment

Property, plant, and equipment at June 30, 2012 and 2011, in thousands of dollars, are as follows:

		2012	2011
Land	$	6,598	4,279
Land improvements		19,187	15,898
Buildings		430,860	424,881
Equipment		42,784	41,516
Construction in progress		9,751	1,225
		509,180	487,799
Less accumulated depreciation		(161,282)	(146,925)
Property, plant, and equipment, net of accumulated depreciation	$	347,898	340,874

Outstanding commitments for construction contracts amounted to approximately $1,449,000 and $4,021,000 as of June 30, 2012 and 2011, respectively.

(8) 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, 2012 and 2011 are as follows:

	2012			
	Interest rates	**Maturity dates**		**Principal amount**
Series 2011A	4.0%	2013 – 2017	$	6,180
Series 2009A	5.0	2019, 2024		62,290
Series 2008A	4.4% – 5.0%	2018		62,148
Series 2005A	4.4% – 5.2%	2018 – 2045		52,512
Series 1999A	4.4%	2013		1,290
				184,420
Plus unamortized premium				7,691
CEFA bonds payable			$	192,111

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	2011		
	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	4.5% – 5.0%	2012 – 2017	7,700
Series 1999A	4.3% – 4.4%	2012 – 2013	2,525
			184,789
Plus unamortized premium			8,324
CEFA bonds payable			$ 193,113

Schedule of maturities:	
Years ending:	
2013	$ 2,435

(9) Funds Held in Trust for Others

Funds held in trust for others at June 30, 2012 and 2011, in thousands of dollars, are as follows:

		2012	2011
Revocable trusts	$	—	206
Other remaindermen trusts payable		10,701	10,625

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 the Employment Retirement Income Security Act of 1974 (ERISA) and for the years ended June 30, 2012 and 2011, the plan has met the minimum funding requirements. Plan assets are invested in a 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 6.00%, 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

	2011			
	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, 2012 are as follows, in thousands of dollars:

	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, June 30, 2011	$ 753,676	675,389	271,389	1,700,454
Pooled investment returns:				
Earned income	8,903	—	—	8,903
Net realized and unrealized gains on investments during the yea				

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Other changes in endowment:				

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Other changes in endowment:				

(b) 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.

(16) Subsequent Events

Subsequent events have been evaluated through November 16, 2012, which is the date the financial statements were issued.

Pomona College
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