Pomona College

Audited Financial Statements

For the Year Ended
June 30, 2009

Pomona College

Report on Audited Financial Statements
For the Year Ended June 30, 2009

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Report of Independent Auditors

To the Board of Trustees of
Pomona College

In our opinion, the accompanying statement of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Pomona College (the "College") at June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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. The prior year summarized comparative information has been derived from the College's June 30, 2008 financial statements, and in our report dated October 14, 2008, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. 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 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the College adopted FASB Staff Position (FSP) No. 117-1 "Endowment of

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

Pomona College

Statement of Activities
For the Year Ended June 30, 2009
(With Summarized Financial Information for the Year Ended June 30, 2008)
(In Thousands of Dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
Revenues and gains:					
Student revenues	$ 72,060			$ 72,060	$ 68,656
Less: Student financial aid	(25,100)			(25,100)	(21,925)
Net student revenues	46,960	-	-	46,960	46,731
Federal grants and contracts	1,327			1,327	1,543
Private gifts and grants	7,198	$ 9,935	$ 11,533	28,666	21,958
Private contracts	613			613	578
Investment income	10,446	179	1,946	12,571	16,764
Net realized gains, appropriated	61,060			61,060	45,995
Sales and services of education depts.	466			466	289
Other sources	560		62	622	810
Total revenues and gains	128,630	10,114	13,541	152,285	134,668
Expenses:					
Instruction	51,237			51,237	49,520
Research	2,689			2,689	3,141
Public service	569			569	621
Academic support	13,109			13,109	13,049
Student services	14,108			14,108	13,817
Institutional support	22,825			22,825	20,142
Auxiliary enterprises	17,529			17,529	17,505
Total expenses	122,066	-	-	122,066	117,795
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Pomona College

Statement of Cash Flows
For the Year Ended June 30, 2009
(With Summarized Financial Information
for the Year Ended June 30, 2008)
(In Thousands of Dollars)

	2009	2008
Cash flows from operating and non-operating activities:		
(Decrease) / increase in net assets	$ (464,140)	$ 39,994
Adjustments to reconcile increase in net assets to net cash provided by / (used in) operating and non-operating activities:		
Depreciation	10,485	10,585
Amortization of bond premium	(646)	(24)
Contributions restricted for long-term investment	(12,608)	(6,936)
Non-cash gifts	(2,451)	(7,201)
Increase / (decrease) in actuarial liabilities	25,864	(5,623)
(Increase) / decrease in accounts receivable	(935)	1,417
(Increase) / decrease in contributions receivable	(15,054)	2,281
(Increase) / decrease in prepaid expenses and deposits	(562)	203
Decrease in accounts payable	(184)	(74)
Increase in accrued payroll and other liabilities	4,960	1,844
Net realized and unrealized loss / (gain) on investments	405,681	(63,571)
Net cash used in operating activities	(49,590)	(27,105)
Cash flows from investing activities:		
Additions to plant facilities	(34,021)	(34,094)
Purchase of investments	(7A6p376(c))2.580h.0563 -1.6f)Tc-.0008(acil)15.36.3(al7.5(e9.9	

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

1. Summary of Significant Accounting Policies

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 nine 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.

Basis of Presentation

The accompanying financial statements of the College are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and with the provisions of the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Not-for-Profit Organizations*.

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
Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets
Net assets that are subject to donor-imposed time or use restrictions that have not been met.

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

1. Summary of Significant Accounting Policies (Continued)

Cash

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

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

Investments

Investments are stated at fair value, as defined by SFAS No. 157, *Fair Value Measurements*, and all related transactions are recorded on the trade date. The fair value of investments is based on quoted market prices from national security exchanges, except for alternative investments for which quoted market prices are not available. The fair value of certain alternative investments, which include limited partnerships in venture capital, real estate and other private debt and equity funds, is based on valuations provided by the external investment managers, general partners or partnership valuation committees, adjusted for receipts and disbursements of cash and distributions of securities if the date of the valuation is prior to the College's fiscal year end. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information. The College believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

The College's private investments have a high concentration of securities that are not traded on ready markets, subjecting these investments to market value volatility. The net realized and unrealized loss on investments of $405,681,000 included approximately $257,424,000 of net losses related to venture capital holdings and other alternative investments for the year ended June 30, 2009. The net realized and unrealized appreciation (depreciation) in fair value of investments is reflected in the accompanying Statement of Activities.

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, 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. At June 30, 2009, these cumulative net gains totaled approximately $1,065,829,000 and were recorded in unrestricted ($462,335,000) and temporarily restricted ($603,494,000) net assets and are available for appropriation under the College's spending policy. The spending policy states that a rate ranging between 4.5% and 5.5% is applied to the trailing 12-quarter average market value of the pooled investments. The actual rate of spending from the pooled investments for the fiscal year ended June 30, 2009 was 4.64% of the average of the previous 12-quarter market values.

Plant Facilities

Plant facilities consist of property, plant and equipment which are stated at cost, representing the purchase price or fair market value at 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 these 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.

Art Collection

The College follows a policy to not record or capitalize its collections. The College's art collections consist of objects of historical and aesthetic significance held for public exhibition and educational purposes. 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 de-accession to be used exclusively for acquisition.

1. Summary of Significant Accounting Policies (Continued)

Life Income and Annuities Payable

The College has legal title to life income and annuity contracts and agreements, subject to life interests of beneficiaries. No significant financial benefit is now being or can be realized until the contractual obligations are released. The costs of managing these contracts and agreements are included in operating expenses.

The College uses the actuarial method of recording life income and annuity contracts and agreements. Under this method, when a gift is received, the present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as a contribution in the appropriate net asset category. The liability account is credited with investment income and gains and is charged with investment losses and payments to beneficiaries. Periodic adjustments are made between the liability account and the net asset account for actuarial gains and losses. The actuarial liability is based on the present value of future payments discounted at rates ranging from 4.4% to 7.5% and over estimated lives according to the Annuity 2000 Mortality Table. Payments of income to beneficiaries are

1. Summary of Significant Accounting Policies (Continued)

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 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 contributions and endowment income whose restrictions are met in the same period as received as unrestricted support. It is also 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.

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.

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 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 year. Actual results could differ from those estimates.

Summarized Financial Information

The financial statements include certain prior year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

1. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The College implemented SFAS No. 157 and its provisions are reflected in the accompanying financial statements.

In September 2009, FASB issued Accounting Standards Update 2009-12, which allows the College to measure the fair value of its investment in certain entities, as defined by the standard, at net asset value (NAV). The College chose to early adopt the standard for the period ending June 30, 2009. As the College has historically used NAV as the basis for determining the fair value of these investments, the adoption had no impact on the financial statements.

In August 2008, the FASB issued FASB Staff Position ("FSP") 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds* effective for fiscal years ending after December 15, 2008. The standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and expands disclosures about an organization's endowment (both donor-restricted and board-designated funds), whether or not the organization is subject to UPMIFA. The State of California adopted UPMIFA effective January 1, 2009; therefore, the College implemented FSP 117-1 in 2009 and its impact is reflected in the accompanying financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with changes in fair value recognized in the change in net assets. The College considered the provisions of SFAS 159 during 2009 and chose not to adopt the fair value option for those assets and liabilities qualified for such treatment under the pronouncement.

Taxation

The College is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and the corresponding sections of the California Revenue and Taxation Code, except for taxes on net unrelated business income. Since the College had no obligation for unrelated business income tax for the year ended June 30, 2009, no provisions for federal or state income taxes are required.

1. Summary of Significant Accounting Policies (Continued)

Reclassifications

The prior year Statement of Activities and Statement of Cash Flows have been revised to conform to the current period presentation.

2. Net Student Revenues

Student revenues for the year ended June 30, 2009, in thousands of dollars, consist of the following:

Tuition and fees	$ 55,277
Room and board	16,783
Gross student revenues	72,060
Less:	
Sponsored financial aid	(14,262)
Unsponsored financial aid	(10,838)
Student financial aid	(25,100)
Net student revenues	$ 46,960

“Sponsored” financial aid consists of funds provided by external entities (including donors of

5. Contributions Receivable (Continued)

6. Investments

Fair Value Measurement

The College carries all investments at fair value in accordance with Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"). Under this standard,

6. Investments (Continued)

6. Investments (Continued)

The following table is a summary of the levels, in thousands of dollars, used as of June 30, 2009 in valuing the College's assets carried at fair value:

	Level 1	Level 2	Level 3	Total
Pooled investments:				
Equities, fixed income and cash	$ 257,335	$ 240,834	$ 134,877	$ 633,046
Venture capital			130,791	130,791
Private Equity			108,819	108,819
Absolute return			342,483	342,483
Real assets	7,644		169,080	176,724
Total pooled investments	264,979	240,834	886,050	1,391,863
Separately invested assets:				
Equities, fixed income and cash	187,819	35,325	5,068	228,212
Total separately invested assets	187,819	35,325	5,068	228,212
Total	$ 452,798	$ 276,159	$ 891,118	$ 1,620,075

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:

	Level 3
Balance at June 30, 2008	$ 1,134,288
Total gains and losses:	
Net realized gains	29,770
Net change in unrealized losses	(282,982)
Total gains and losses	(253,212)
Net purchases, sales and settlements	10,097
Transfers in/(out) of level 3	(55)
Balance at June 30, 2009	$ 891,118

6. Investments (Continued)

6. Investments (Continued)

Absolute Return Strategies

7. Plant Facilities

Plant facilities at June 30, 2009, in thousands of dollars, are as follows:

Land	$ 3,486
Land improvements	14,766
Buildings	303,612
Equipment	38,399
Construction-in-progress	41,919
	402,182
Less: Accumulated depreciation	(126,021)
Plant facilities, net of accumulated depreciation	$ 276,161

Outstanding commitments for construction contracts amounted to approximately $8,143,000 as of June 30, 2009.

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, 2009 are as follows:

	Interest Rates	Maturity Dates	Principal Amount
Series 2009A	5.0%	2019, 2024	$ 62,290
Series 2008A	4.4%-5.0%	2018	59,475
Series 2005A	4.4%-5.2%	2018-2045	41,880
Series 2001	4.0%-5.0%	2010-2017	9,855
Series 1999A	4.0%-4.4%	2010-2017	4,845
			178,345
Plus: Unamortized premium			10,417
CEFA bonds payable			$ 188,762

8. CEFA Bonds Payable (Continued)

On April 2, 2009, the College issued an aggregate of $62,290,000 in new CEFA Series 2009A Bonds which comprised of $31,145,000 of current interest bonds with a maturity of January 1, 2019 and $31,145,000 with a maturity of January 1, 2024   The net proceeds from the Series 2009A Bonds, including a bond premium of $5,670,000, were used to defease the College's CEFA Series 2008B Variable Rate Demand Revenue Bonds, the College's Series 2005B Variable Rate Demand Revenue Bonds and $5,825,000 of the College's CEFA Series 1999A Bonds. This transaction resulted in a loss of $1,052,000 and is included in Institutional Support expenses on the accompanying Statement of Activities.

At June 30, 2009, the College had approximate

9. Funds Held in Trust for Others

Funds held in trust for others at June 30, 2009, in thousands of dollars, are as follows:

Revocable trusts	$ 14,716
Other remaindermen trusts payable	8,876
	$ 23,592

10. Net Assets

At June 30, 2009, net assets consist of the following, in thousands of dollars:

Unrestricted:	
Available for operations	$ 95
For designated purposes	127,299
Designated for annuity and life income funds	17,018
Funds functioning as endowment	544,016
Invested in plant facilities	81,285
Total unrestricted	769,713
Temporarily restricted:	
Restricted for specific purposes	18,881
Annuity and life income funds	25,574
Funds functioning as endowment	552,832
Total temporarily restricted	597,287
Permanently restricted:	
Loan funds	17,263
Annuity and life income funds	20,034
Endowment funds	247,694
Total permanently restricted	284,991
Total net assets	$ 1,651,991

11. Employee Benefit Plans

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

11. Employee Benefit Plans (Continued)

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, 2009 the College has approximately $448,000 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.

Pomona College

12. Endowment (Continued)

Changes in endowment net assets for the year ended June 30, 2009 are as follows (in thousands):

12. Endowment (Continued)

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 the Act requires the College to retain as a fund of perpetual duration. Deficits of this nature that are reported in unrestricted net assets were $4,524,000 as of June 30, 2009. 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.

Return Objective and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to

12. Endowment (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The College has a policy of appropriating for distribution each year 4.5% to 5.5% of its endowment funds' average fair value over the prior 12 quarters through the September 30th of the preceding fiscal year in 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 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.

13. Related Parties

It is the policy of the College to provide full disclosure to the Audit Committee of the Board of Trustees of any related-party transactions. In the opinion of management, there were no material related-party transactions, other than transactions with affiliated institutions, which require disclosure in the financial statements.

14. Commitments and Contingencies

Line of Credit

At June 30, 2009, the College had a $50,000,000 line of credit which expires on November 30, 2009. Any borrowings on the line would bear interest at a rate set by the bank (2.25% at June 30, 2009) and is subject to change from time to time. There were no borrowings outstanding on the line at June 30, 2009.

Litigation

The College is involved in claims, including those for 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.

Federal Funding

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