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COVER: *“Dividing the Light,” a skyspace by James Turrell '65 on the campus of Pomona College*



**POMONA COLLEGE**

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)



## Independent Auditors Report

The Board of Trustees  
Pomona College:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Pomona College (the College), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

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

#### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation



**POMONA COLLEGE**

Statements of Financial Position

June 30, 2018 and 2017

(In thousands of dollars)

**Assets**

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**POMONA COLLEGE**

Statement of Activities

Year ended June 30, 2018

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>		
Revenues, gains, and other support:				
Student revenues	\$ 110,809	—		
Less student financial aid	(47,268)	—		
Net student revenues	<u>63,541</u>	<u>—</u>		
Federal grants and contracts	1,427			
Private gifts and grants	7,125	6,461		
Private contracts	969	15		
Pooled income appropriated for operations	93,459	—		
Sales and services of education departments	3,630	24		
Other revenues	205	(4)		
	<u>106,815</u>	<u>6,496</u>		
Net assets released from restriction	56,396	(56,396)		
Transfers among net asset categories	5,412	(7,597)		
Total revenues, gains, and other support	<u>232,164</u>	<u>(57,497)</u>		
Expenses:				
Instruction	65,375	—		
Research	3,030	—		
Public service	1,282	—		
Academic support	18,668	—		
Student services	23,286			
Institutional support				
Auxiliary enterprises			110 a 8096,461	
Total expenses			<u>63</u>	
Increase (decrease) in net assets from operating activities				
Nonoperating activities:				
Net realized and unrealized gains on investments			65,3	
Net investment income				6) 110 ´
Pooled income appropriated for operations				
Changes in actuarially determined gift liabilities				
Other actuarial adjustments				
Annuity and life income funds released		65,3	' T	
Other				
Change in net assets from nonoperating activities		65,3		
Change in net assets	65,3	' T	65,3	' T
Net assets, beginning of year				
Net assets, end of year	<u>65,3</u>	<u>and</u>		

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**POMONA COLLEGE**

Statement of Activities

Year ended June 30, 2017

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Student revenues	\$ 104,672	—	—	104,672
Less student financial aid	(42,012)	—	—	(42,012)
Net student revenues	<u>62,660</u>	<u>—</u>	<u>—</u>	<u>62,660</u>
Federal grants and contracts	1,599	—	—	1,599
Private gifts and grants	7,589	20,545	6,856	34,990
Private contracts	883	35	—	918
Pooled income appropriated for operations	89,204	—	—	89,204
Sales and services of education departments	3,854	27	—	3,881
Other revenues	183	—	58	241
	<u>103,312</u>	<u>20,607</u>	<u>6,914</u>	<u>130,833</u>
Net assets released from restriction	54,756	(54,756)	—	—
Transfers among net asset categories	(2,231)	(2,342)	4,573	—
Total revenues, gains, and other support	<u>218,497</u>	<u>(36,491)</u>	<u>11,487</u>	<u>193,493</u>
Expenses:				
Instruction	64,678	—	—	64,678
Research	3,122	—	—	3,122
Public service	1,210	—	—	1,210
Academic support	16,848	—	—	16,848
Student services	21,239	—	—	21,239
Institutional support	32,154	—	—	32,154
Auxiliary enterprises	29,831	—	—	29,831
Total expenses	<u>169,082</u>	<u>—</u>	<u>—</u>	<u>169,082</u>
Increase (decrease) in net assets from operating activities	<u>49,415</u>	<u>(36,491)</u>	<u>11,487</u>	<u>24,411</u>
Nonoperating activities:				
Net realized and unrealized gains on investments	111,702	135,497	3,412	250,611
Net investment income	5,003	8,103	2,272	15,378
Pooled income appropriated for operations	(89,204)	—	—	(89,204)
Changes in actuarially determined gift liabilities	3,559	1,436	4,583	9,578
Other actuarial adjustments	(85)	—	—	(85)
Annuity and life income funds released	647	(609)	(38)	—
Other	606	(31)	—	575
Change in net assets from nonoperating activities	<u>32,228</u>	<u>144,396</u>	<u>10,229</u>	<u>186,853</u>
Change in net assets	<u>81,643</u>	<u>107,905</u>	<u>21,716</u>	<u>211,264</u>
Net assets, beginning of year	<u>1,152,434</u>	<u>841,629</u>	<u>381,825</u>	<u>2,375,888</u>
Net assets, end of year	\$ <u><u>1,234,077</u></u>	<u><u>949,534</u></u>	<u><u>403,541</u></u>	<u><u>2,587,152</u></u>

See accompanying notes to financial statements.





**POMONA COLLEGE**

Notes to Financial Statements

June 30, 2018 and 2017

**(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 1,655 students and a student-faculty ratio of eight to one.

Pomona College is a member of an affiliated group of colleges known as The Claremont Colleges.

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**POMONA COLLEGE**

Notes to Financial Statements

June 30, 2018 and 2017

**(i) Art Collection**

The collection, which was acquired through purchase and contributions since the College's inception, is not recognized as an asset on the statement of financial position. Purchases of collection items are

**POMONA COLLEGE**

Notes to Financial Statements

June 30, 2018 and 2017

**(n) *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

**POMONA COLLEGE**  
Notes to Financial Statements  
June 30, 2018 and 2017

**(3) Accounts and Other Receivables**

Accounts and other receivables, net of allowance at June 30, 2018 and 2017, in thousands of dollars, are as follows:

**2018**                      **2017**

**(4) Notes Receivable**

Notes receivable at June 30, 2018 and 2017, in thousands of dollars, are as follows:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Loans receivable from students	\$ 11,563	12,425
Less allowance for doubtful accounts	<u>(1,216)</u>	<u>(1,065)</u>
Notes receivable, net of allowance	<u><u>\$ 10,347</u></u>	<u><u>11,360</u></u>

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.

**POMONA COLLEGE**

Notes to Financial Statements

June 30, 2018 and 2017

interest in these split-interest agreements based on the present value of future cash flows using a discount rate of 6.10%. 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 active market.

At June 30, 2018 and 2017, unconditional promises to give, in thousands of dollars, are expected to be received in the following periods:

	<u>2018</u>	<u>2017</u>
In one year or less	\$ 7,331	10,256
Between one year and five years	3,889	7,187
More than five years	<u>13,742</u>	<u>14,110</u>
	24,962	31,553
Less discount	<u>(1,379)</u>	<u>(1,791)</u>
Pledged contributions	23,583	29,762
Split-interest agreements	<u>716</u>	<u>1,875</u>
Contributions receivable, net	<u>\$ 24,299</u>	<u>31,637</u>

Unconditional promises to give and split-interest agreements at June 30, 2018 and 2017, in thousands of dollars, have the following restrictions:

	<u>2018</u>	<u>2017</u>
Endowment for programs, activities, and scholarships	\$ 5,278	10,193
Building construction	16,100	16,805
Education and general	<u>4,300</u>	<u>6,430</u>
	25,678	33,428
Less discount	<u>(1,379)</u>	<u>(1,791)</u>
Contributions receivable, net	<u>\$ 24,299</u>	<u>31,637</u>

At June 30, 2018, the College was in receipt of two nonbinding letters of intent in the amount of

**POMONA COLLEGE**  
Notes to Financial Statements  
June 30, 2018 and 2017

**(6) Investments**

**(a) Fair Value Measurement**

The fair value of investments at June 30, 2018 and 2017, in thousands of dollars, is as follows:

	<b>2018</b>	<b>2017</b>
Pooled investments:		
Cash and cash equivalents	\$ 42,569	93,930
Domestic equities	360,376	352,512
International equities	254,450	271,497
Emerging markets	216,474	227,537
Fixed income	250,015	167,192
Fixed income – trust deeds	24,370	26,268
Venture capital	347,301	303,356
Private equity	123,016	112,108
Absolute return	449,840	412,567
Real assets <sup>1</sup>	325,912	304,676
Total long-term investments – pooled	2,394,323	2,271,643
Separately invested:		
Cash and cash equivalents	449	5,754
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**POMONA COLLEGE**

Notes to Financial Statements

June 30, 2018 and 2017

The College's investment income net of related expenses for the years ended June 30, 2018 and 2017 was as follows, in thousands of dollars:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 23,386	21,394
Less investment expenses	<u>(6,766)</u>	<u>(6,016)</u>
Net investment income	16,620	15,378
Net realized and unrealized gains on investments	<u>171,310</u>	<u>250,611</u>
Total investment income, net	<u>\$ 187,930</u>	<u>265,989</u>

**(b) Absolute Return Strategies**

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 tables summarize these investments by investment strategy type at June 30, 2018 and 2017, in thousands of dollars.

	<u>2018</u>		
<u>Absolute return strategy</u>	<u>Number of funds</u>	<u>Cost</u>	<u>Fair value</u>
Diversified arbitrage	6	\$ 58,476	148,454
Long-short equity	5	56,074	111,508
Global Macro/Systematic	3	105,000	104,654
Event arbitrage	4	22,205	56,832
Distressed securities	1	<u>25,000</u>	<u>28,392</u>
	<u>19</u>	<u>\$ 266,755</u>	<u>449,840</u>

	<u>2017</u>		
<u>Absolute return strategy</u>	<u>Number of funds</u>	<u>Cost</u>	<u>Fair value</u>
Diversified arbitrage	5	\$ 70,081	153,230
Long-short equity	5	73,169	120,476
Global Macro/Systematic	3	75,000	71,531
Event arbitrage	4	24,000	41,060
Distressed securities	1	<u>25,000</u>	<u>26,270</u>
	<u>18</u>	<u>\$ 267,250</u>	<u>412,567</u>





**POMONA COLLEGE**

Notes to Financial Statements

June 30, 2018 and 2017

partners. For these investments, the College has determined, through its monitoring activities, to rely

**POMONA COLLEGE**

Notes to Financial Statements

June 30, 2018 and 2017

**Investments measured at 2018**

	Investments measured at NAV	2017 Investments classified in the fair value hierarchy			
		Level 1	Level 2	Level 3	Total
Pooled investments:					
Cash and cash equivalents	\$ —	93,930	—	—	93,930
Domestic equities	316,374	36,138	—	—	352,512
International equities	221,790	—	49,707	—	271,497
Emerging markets	126,621	44,127	56,789	—	227,537
Fixed income	61,967				

**POMONA COLLEGE**

Notes to Financial Statements

June 30, 2018 and 2017

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

**POMONA COLLEGE**  
Notes to Financial Statements  
June 30, 2018 and 2017

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:

		June 30, 2017								
	Strategy	NAV in funds	Number of funds	Remaining life	Amount of unfunded commitments <sup>2</sup>	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.	\$ 303.3	83	1–15 years	\$ 64.1	up to 6 years	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	
Private equity/distressed	Buyout and distressed funds in U.S. and international	112.1	57	1–15 years	111.9	up to 6 years	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	
Private real assets	Real estate, timberland, and energy funds primarily in the U.S. and developed Europe	162.3	62	1–15 years	107.0	up to 6 years	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	
Total private investments		577.7	202		283.0					
Absolute return and long/short equity	Long/short and diversified arbitrage funds investing globally	412.6	18	N/A	—	N/A	Ranges between monthly with 10 days' notice, to annually with 180 days' notice.	No redemption restrictions.	3 funds have 25% annual gates in place; 1 fund has 15% gate in place; 1 fund has a 10% annual gate in place	
Commingled funds	Debt and Equity funds with various regional mandates	726.7	11	N/A	—	N/A	Ranges between monthly with 6 days' notice, to tri-annually with	1 fund has a rolling three-year lock-up period. 1 fund has a	1 fund has a 25% annual gate; 1 fund has	

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**POMONA COLLEGE**

Notes to Financial Statements

June 30, 2018 and 2017

On December 14, 2017, the College executed the issuance of \$154,654,000 of tax-exempt bonds through the California Municipal Finance Authority (CMFA). Proceeds of \$128,724,000 were used to refund the Series 2008A and Series 2009A California Educational Facilities Authority bonds. The remaining proceeds of \$25,930,000 were used to provide partial funding for the Pomona College Museum of Art, currently under construction.

**(9) Net Assets**

At June 30, 2018 and 2017, net assets consist of the following, in thousands of dollars:

**(10) Retirement Plans**

The College participates with other members of The Claremont Colleges in a defined-contribution retirement plan administered by the Claremont University Consortium. This plan provides retirement benefits for all employees through the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA). Under this plan, College contributions are used to purchase fixed and/or variable annuities offered by TIAA. Vesting provisions are full and immediate. Benefits commence upon retirement and pre-retirement 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

## **POMONA COLLEGE**

### Notes to Financial Statements

June 30, 2018 and 2017

mutual funds offered by TIAA, Fidelity Investments Institutional Services Company, Inc., or The Vanguard Group. For the years ended June 30, 2018 and 2017, the College's contributions to this plan amounted to approximately \$6,415,000 and \$6,094,000, respectively.

For the years ended June 30, 2018 and 2017, contributions made by employees to the College's 457(b) Plan of approximately \$5,737,000 and \$5,495,000, respectively, were included in separately invested assets and accrued payroll and other liabilities on the statements of financial position.

#### **(11) 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, 2018 and 2017, the College had approximately (\$269,000) and \$81,000, respectively, in accrued payroll and other liabilities 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.

#### **(12) Endowment**

The net assets of the College include permanent endowment funds and funds functioning as endowment. Permanent endowments are subject to the restrictions of gift instruments requiring in perpetuity that the

**POMONA COLLEGE**

Notes to Financial Statements

June 30, 2018 and 2017

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 on investments and the expected appreciation of investments

The expected total return on investments and the expected appreciation of investments are based on the historical performance of the investments and the expected future performance of the investments. The expected total return on investments is based on the historical performance of the investments and the expected future performance of the investments. The expected appreciation of investments is based on the historical performance of the investments and the expected future performance of the investments.

**POMONA COLLEGE**

Notes to Financial Statements

June 30, 2018 and 2017

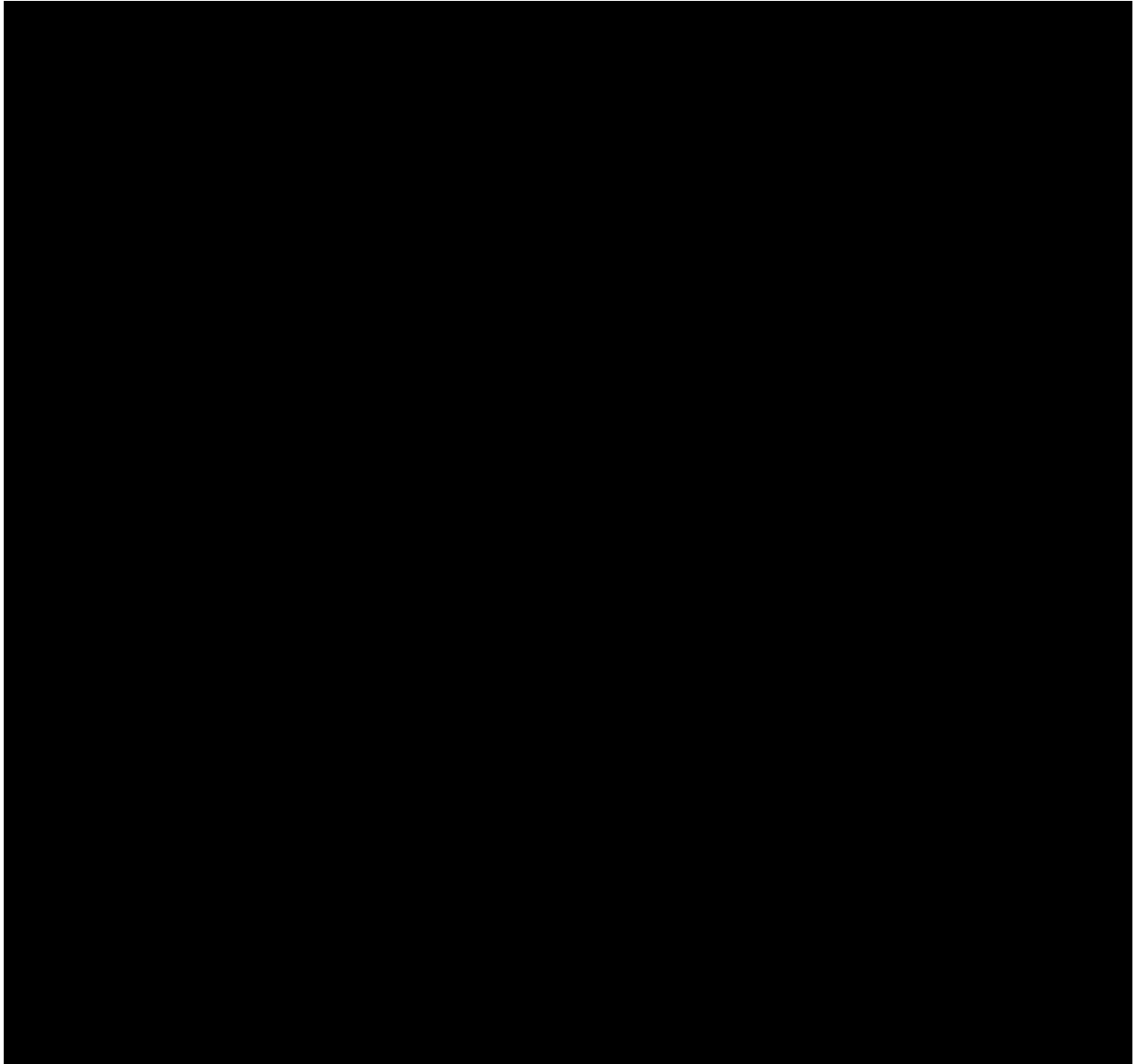
Endowment net assets consist of the following at June 30, 2018 and 2017, in thousands of dollars:

	<b>2018</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	209	372,994	373,203
Board-designated endowment funds	189,703	—	—	189,703
Accumulated unappropriated gains	<u>790,683</u>	<u>920,118</u>	<u>—</u>	<u>1,710,801</u>
Total endowment net assets	<u>\$ 980,386</u>	<u>920,327</u>	<u>372,994</u>	<u>2,273,707</u>

**POMONA COLLEGE**

**POMONA COLLEGE**  
Notes to Financial Statements  
June 30, 2018 and 2017

Changes in endowment net assets for the year ended June 30, 2017 are as follows, in thousands of dollars:



**(13) Affiliated Institutions**

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