



Harvey Mudd College

Audited Financial Statements
2009–2010



BUSINESS AFFAIRS OFFICE

Harvey Mudd College
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HARVEY MUDD COLLEGE
ANNUAL FINANCIAL REPORT

2010 and 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Harvey Mudd College

We have audited the accompanying statements of financial position of Harvey Mudd College (the "College") as of June 30, 2010 and 2009, and the related statements of activities, and cash flows for the years 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 audits.

We conducted our audits 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 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 audits provide 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 the College as June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Los Angeles, California
October 5, 2010

HARVEY MUDD COLLEGE
STATEMENT OF FINANCIAL POSITION

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash	\$ 230,925	\$ 397,268
Accounts receivable, net (Note 2)	1,941,685	1,475,298
Prepaid expenses, deposits and other	804,772	658,312
Notes receivable, net (Note 2)	3,984,898	3,708,945
Contributions receivable, net (Note 3)	24,669,936	26,277,629
Investments (Note 4)	235,235,477	222,090,163
Plant facilities, net (Note 6)	<u>59,812,015</u>	<u>58,799,788</u>
Total assets	<u>\$ 326,679,708</u>	<u>\$ 313,407,403</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 4,172,808	\$ 3,232,092
Deposits and deferred revenues	480,857	579,390
Life income and annuities payable	5,062,147	5,183,401
Liability for staff retirement plan	1,328,879	995,379
Note and bonds payable (Note 7)	3,876,194	5,004,118
Government advances for student loans	3,034,046	2,900,856
Funds held in trust for others (Note 8)	319,144	298,625
Asset retirement obligation (Note 9)	<u>1,124,052</u>	<u>1,074,094</u>
Total liabilities	<u>19,398,127</u>	<u>19,267,955</u>
NET ASSETS (Note 10)		
Unrestricted	101,616,149	97,278,004
Temporarily restricted	105,811,255	97,443,739
Permanently restricted	<u>99,854,177</u>	<u>99,417,705</u>
Total net assets	<u>307,281,581</u>	<u>294,139,448</u>
Total liabilities and net assets	<u>\$ 326,679,708</u>	<u>\$ 313,407,403</u>

The accompanying notes are an integral part of this financial statement.

HARVEY MUDD COLLEGE
STATEMENT OF ACTIVITIES

For the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010
Revenues and release of net assets				
Tuition, fees, room and board	\$ 37,508,051	\$ -	\$ -	\$ 37,508,051
Less financial aid	(12,314,982)	(115,980)	-	(12,430,962)
Net student revenues (Note 11)	25,193,069	(115,980)	-	25,077,089
Federal grants	3,400,320	-	-	3,400,320
Private gifts and grants	6,517,136	2,405,792	334,815	9,257,743
Private contracts	792,925	-	-	792,925
Endowment Payout	10,950,731	732,712	321,202	12,004,645
Other investment returns	529,849	(257,983)	(241,807)	30,059
Other revenue	871,269	6,199	-	877,468
Release and reclassification of net assets				
Operations	510,366	(496,615)	(13,751)	-
Annuity and life income	69,204	(69,204)	-	-
Plant facilities	550,220	(550,220)	-	-
Total revenues and release of net assets	49,385,089	1,654,701	400,459	51,440,249
Expenses				
Instruction	19,579,424	-	-	19,579,424
Research	2,760,918	-	-	2,760,918
Public service	837,762	-	-	837,762
Academic support	5,323,209	-	-	5,323,209
Student services	4,949,165	-	-	4,949,165
Institutional support	8,003,907	-	-	8,003,907
Auxiliary enterprises	6,498,897	-	-	6,498,897
Total expenses	47,953,282	-	-	47,953,282
Excess (deficit) of revenues over expenses	1,431,807	1,654,701	400,459	3,486,967
Other changes in net assets				
Redesignation of net assets (UPMIFA)	-	-	-	-
Pooled investment gains (losses) net of allocations to operations	3,222,503	6,671,855	-	9,894,358
Other comprehensive pension expense	(316,165)	-	-	(316,165)
Actuarial adjustment	-	40,960	36,013	76,973
Change in net assets	4,338,145	8,367,516	436,472	13,142,133
Net assets, beginning of year	97,278,004	97,443,739	99,417,705	294,139,448
Net assets, end of year	\$ 101,616,149	\$ 105,811,255	\$ 99,854,177	\$ 307,281,581

The accompanying notes are an integral part of this financial statement.

HARVEY MUDD COLLEGE
STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2009
Revenues and release of net assets				
Tuition, fees, room and board	\$ 34,654,738	\$ -	\$ -	\$ 34,654,738
Less financial aid	(10,993,651)	(229,169)	-	(11,222,820)
Net student revenues (Note 11)	23,661,087	(229,169)	-	23,431,918
Federal grants	2,665,767	-	-	2,665,767
Private gifts and grants	15,571,862	23,311,639	2,520,448	41,403,949
Private contracts	1,425,614	-	-	1,425,614
Endowment payout	10,570,992	552,093	320,615	11,443,700
Other investment returns	328,181	(71,294)	(151,166)	105,721
Other revenue	1,603,555	18,300	-	1,621,855
Release and reclassification of net assets				
Operations	2,151,699	(2,244,303)	92,604	-
Annuity and life income	261	(261)	-	-
Plant facilities	159,572	(159,572)	-	-
Total revenues and release of net assets	58,138,590	21,177,433	2,782,501	82,098,524
Expenses				
Instruction	18,915,556	-	-	18,915,556
Research	2,657,978	-	-	2,657,978
Public service	736,476	-	-	736,476
Academic support	5,248,829	-	-	5,248,829
Student services	4,923,047	-	-	4,923,047
Institutional support	7,945,440	-	-	7,945,440
Auxiliary enterprises	6,447,340	-	-	6,447,340
Total expenses	46,874,666	-	-	46,874,666
Excess (deficit) of revenues over expenses	11,263,924	21,177,433	2,782,501	35,223,858
Other changes in net assets				
Redesignation of net assets (UPMIFA)	(56,684,371)	56,684,371	-	-
Pooled investment gains (losses) net of allocations to operations	(60,966,366)	6,321,038	-	(54,645,328)
Other comprehensive pension expense	(733,940)	-	-	(733,940)
Actuarial adjustment	-	(147,102)	(134,943)	(282,045)
Change in net assets	(107,120,753)	84,035,740	2,647,558	(20,437,455)
Net assets, beginning of year	204,398,757	13,407,999	96,770,147	314,576,903
Net assets, end of year	\$ 97,278,004	\$ 97,443,739	\$ 99,417,705	\$ 294,139,448

The accompanying notes are an integral part of this financial statement.

HARVEY MUDD COLLEGE
STATEMENT OF CASH FLOWS

June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Tuition, fees, room, board, sales and services of auxiliary enterprises, net of scholarships and fellowships	\$ 24,929,980	\$ 23,554,745
Gifts, grants and contracts revenue	9,818,221	8,647,712
Investment income	3,341,328	4,255,300
Other revenue	901,249	1,586,104
Interest paid	(214,207)	(268,769)
Payments to employees and suppliers	(44,553,968)	(44,329,458)
Net cash (used in) provided by operating activities	<u>(5,777,397)</u>	<u>(6,554,366)</u>
Cash flows from investing activities:		
Purchase of plant facilities	(3,331,386)	(13,298,955)
Proceeds from sale of investments	97,725,304	107,995,040
Purchase of investments	(92,248,573)	(103,132,980)
Loans made to students and employees	(500,630)	(596,491)
Collection of student and employee loans	219,547	161,011
Net cash provided by (used in) investing activities	<u>1,864,262</u>	<u>(8,872,375)</u>
Cash flows from financing activities:		
Payments to life income beneficiaries	(609,744)	(939,530)
Investment income and losses on life income investments	538,284	406,035
Principal payments on debt	(1,164,129)	(1,109,066)
Contributions restricted for endowment	2,441,668	1,107,984
Contributions restricted for life income contracts	(91,843)	359,272
Contributions restricted for plant expenditures	105,450	588,751
Contributions restricted for long term investments	2,373,397	14,773,694
Increase (decrease) in funds held in trust for others	20,519	56,283
Increase (decrease) in government advances for student loans	133,190	32,986
Net cash provided by (used in) financing activities	<u>3,746,792</u>	<u>15,276,409</u>
Net increase (decrease) in cash	(166,343)	(150,332)
Cash, beginning of year	<u>397,268</u>	<u>547,600</u>
Cash, end of year	<u>\$ 230,925</u>	<u>\$ 397,268</u>

The accompanying notes are an integral part of this financial statement.

HARVEY MUDD COLLEGE
STATEMENT OF CASH FLOWS

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of change in net assets to cash flows from operating activities:		
Change in net assets	\$ 13,142,133	\$ (20,437,455)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	2,319,159	2,357,127
Amortization of bond discount and cost of issuance	36,205	34,170
Amortization of asset retirement obligation	49,958	47,733
Comprehensive pension expense	316,165	733,940
Realized (gains) losses on sale of investments	(194,028)	9,668,277
Unrealized (gains) losses on investments	(18,379,135)	37,682,650
Adjustment of actuarial liability for life income agreements	(96,674)	257,891
(Increase) decrease in prepaid expenses and deposits	(146,460)	62,716
(Increase) decrease in accounts and notes receivable	(461,257)	(213,702)
(Increase) decrease in contributions receivable	(59,844)	3,441
Increase (decrease) in accounts payable and accrued liabilities	940,712	(260,560)
Increase (decrease) in deposits and deferred revenue	(98,529)	139,568
Contributions restricted for long-term investments	(3,163,137)	(36,522,675)
Defined benefit plan contributions (over)/under expense	17,335	(107,487)
	<u>\$ (5,777,397)</u>	<u>\$ (6,554,366)</u>

The accompanying notes are an integral part of this financial statement.

HARVEY MUDD COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Founded in 1955, Harvey Mudd College (the "College") is a premier independent liberal arts college that seeks to educate engineers, scientists, and mathematicians, well versed in all of these areas and in the humanities and the social sciences so that they may assume leadership in their fields with a clear understanding of the impact of their work on society.

The College is a nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. The primary purpose of the accounting and reporting is for resources received and applied rather than the determination of net income. The following accounting policies of the College are in accordance with those generally accepted for private colleges and universities:

Basis of Presentation:

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

Net Asset Categories:

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

- Unrestricted net assets include all support that is not subject to donor-imposed restrictions. The Board of Trustees has designated a portion of unrestricted net assets to function as endowment, loan funds and for other specific purposes. Plant facilities includes all long-lived assets and renewal and replacement funds net of related liabilities.
- Temporarily restricted net assets include primarily gifts of cash and other assets subject to donor-imposed restrictions that either lapse through the passage of time or can be satisfied through the actions of the College, and endowment gains available for appropriation under the College's spending policy (Note 1, Management of Pooled Investments). When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets (Note 1, Release of Donor-Imposed Restrictions).
- Permanently restricted net assets include gifts and income subject to donor-imposed restrictions that they be maintained permanently by the College. The donors of endowment funds generally allow the College to use the income and a portion of the gains earned on these assets for general or specific purposes under the College's spending policy. Annuity and life income contracts and agreements are reclassified as endowment funds when the terms of the contracts and agreements expire.

Revenue Recognition:

Tuition and Fees – Student tuition and fees are recorded as revenue 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 revenue. Collectability of student accounts and notes receivable is reviewed both individually and in the aggregate. Allowances have been established based on experience through a charge to bad debt expense and a credit to a provision for doubtful accounts. Balances deemed uncollectible are written off through a charge to the provision for doubtful accounts and a credit to accounts receivable. The College follows federal guidelines for determining when student loans are delinquent or past due for both federal and institutional loans.

HARVEY MUDD COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Revenue Recognition, continued:

Gifts - Gifts, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate category of net assets. Unconditional promises to give are initially recorded at fair value using the present value of future cash flows, discounted using a risk adjusted rate. Subsequent measurements of unconditional promises to give do not represent fair value. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Gifts of assets other than cash are recorded at their estimated fair value. Gifts to be received in future periods are discounted at an appropriate discount rate.

Grants and Contracts – Revenues from grants and contracts are reported as increases in unrestricted net assets, as allowable expenditures under such agreements are incurred.

Investment Return – Investment income and realized and unrealized gains and losses are recorded and reported as increases or decreases to the appropriate net asset category.

Release of Donor-Imposed Restrictions:

The release of a donor-imposed restriction on a gift or on endowment income is recognized in the period in which the restriction substantially expires. At that time, the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time period 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 gifts and endowment income whose restrictions are met in the same period received as unrestricted support. It is also the College's policy to release the restrictions on gifts of cash or other assets received for the acquisitions of long-lived assets when the long-lived assets are placed into service.

Expense Recognition:

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

Allocation of Certain Expenses:

The Statements of Activities present expenses by functional classification. Depreciation and the cost of operation and maintenance of plant facilities are allocated to functional categories based on building square footage dedicated to that specific function. Interest expense is allocated based on the use of the related borrowings, which is primarily to finance auxiliary enterprise and academic facility construction or renovation.

Cash:

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

Concentration of Credit Risk:

Financial instruments that potentially subject the College to concentrations of credit risk consists principally of cash deposits at financial institutions and investments in marketable securities. At times, balances in the College's cash and investment accounts exceed the Federal Deposit Insurance Corporation (FDIC) or Securities Investors Protection Corporation (SPIC).

HARVEY MUDD COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Investments:

Investments are reported at fair value, although the college holds certain investments at the original appraisal value and does not revalue the assets on a recurring basis. At June 30, 2010 and 2009, investments held at cost totaled \$2,562,686 and \$2,650,183, respectively. Realized and unrealized gains and losses are reflected in the accompanying Statement of Activities as pooled investment gains (losses) net of allocations to operations.

Management Of Pooled Investments:

The College follows an investment policy which anticipates a greater long-range 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 a rate ranging between 4% and 5% is applied to the average market value of pooled investments. If ordinary income is insufficient to provide the full amount of investment return specified, the balance may be appropriated from realized gains of the pooled investments. Cumulative net realized gains and transfers of ordinary income in excess of the spending policy (“cumulative gains”) are recorded in temporarily restricted net assets and are available for appropriation under the College’s spending policy. At June 30, 2010 and 2009, these cumulative gains totaled approximately \$88,138,000 and \$96,029,000, respectively.

Endowment Funds:

The Board of Trustees of the College interprets the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) to state that the College, in the absence of explicit donor stipulations to the contrary, may appropriate for expenditure or accumulate endowment so much of an endowment as the College determines prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Therefore, the College classifies as permanently restricted net assets the original value of gifts to the endowment and the accumulations made in accordance with the donor intent. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the college in a manner consistent with the standard of prudence prescribed by California UPMIFA which includes the:

- (1) Duration and preservation of the fund
- (2) Mission of the College and purpose endowment fund
- (3) General economic conditions
- (4) Possible effects of inflation and deflation
- (5) Expected total return from income and appreciation of investments
- (6) Other resources of the College
- (7) Investment policy of the organization.

Funds with Deficiencies:

From time to time, as a result of market declines, the fair value of certain donor restricted endowments were less than the historical dollar value. Deficiencies of this nature have been recorded as reductions in unrestricted net assets and were approximately \$1,970,000 and \$3,545,000 at June 30, 2010 and 2009, respectively. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases permanently restricted net assets or temporarily restricted net assets.

HARVEY MUDD COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Fair Value Measurement of Financial Instruments:

A financial instrument is defined as a contractual obligation that ultimately ends with the delivery of cash or an ownership interest in an entity. Disclosures included in these notes regarding the fair value of financial instruments have been derived using external market sources, estimates using present value or other valuation techniques. Determination of the fair value of loan fund receivables, which are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

The College carries most investments and its beneficial interest in trusts held by third parties at fair value in accordance with generally accepted accounting principles. Under this standard, fair value is defined as the price that would be received to sell an asset (i.e. the “exit price”) in an orderly transaction between market participants at the measurement date, and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the College has the ability to access at the measurement date;

Level 2 – Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 – Inputs that are unobservable.

Inputs are used in applying the valuation techniques and broadly refer to the assumptions that the College uses to make valuation decisions, including assumptions about risk. Inputs may include quoted market prices, recent transactions, manager statements, including monthly, quarterly and annual reports, 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, mutual funds, and certain domestic and international equities are valued based on quoted market prices, and are therefore typically classified within Level 1.

The investments in mutual funds, fixed income, hedge funds, and certain limited partnerships, and other assets are valued based on quoted market prices of comparable assets, and are therefore typically classified within Level 2. The fair value of some of these investments have been estimated using net asset value per share.

Level 3 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 fair value of some of these investments have been estimated using net asset value per share.

HARVEY MUDD COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Fair Value Measurement of Financial Instruments, continued:

The investment managers and general partners of investments categorized as Level 3 generally value their investments at fair value and in accordance with generally accepted accounting principles. Investments with no readily available market are generally recorded at an estimated market value, 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 may be carried at acquisition price (cost) if little has changed since the initial investment of the company and is most representative of fair value. Investments with a readily available market (listed on a securities exchange or traded in the over-the-counter market) are valued at quoted market prices or at an appropriate discount from such price if marketability of the securities is restricted.

Although the College uses its best judgment in determining the fair value of investments, there are inherent limitations in any methodology. 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.

Plant Facilities:

Plant facilities consist of property, plant and equipment which are stated at cost representing the original purchase price or the fair market value at the date of the gift, less accumulated depreciation. Plant purchases with a useful life of five years or more and a cost equal to or greater than \$100,000 for land improvements and buildings and \$25,000 for equipment are capitalized. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings, permanent improvements and equipment (generally 7 years for equipment and permanent improvements and 40 years for buildings). Depreciation expense is funded through operations and gifts. The cost and accumulated depreciation of assets sold or retired are removed from the accounts and the related gains or losses are included in the Statements of Activities. Asset retirement obligations are recorded based on estimated settlement dates and methods.

No significant property or equipment has been pledged as collateral or otherwise subject to lien for the years ended June 30, 2010 and 2009. Proceeds from the disposal of equipment acquired with federal funds will be transferred to the federal awarding agency. No federal project equipment was disposed of during the years ended June 30, 2010 and 2009. No property or equipment has been acquired with restricted assets where title may revert to another party.

Annuity and Life Income Contracts and Agreements:

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

The College uses the actuarial method of recording annuity and life income contracts and agreements. Under this method, the asset is recorded at fair value when a gift is received. The present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as a gift 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 4.6% to 7.5% and over estimated lives according to Annuity 2003 Unisex Mortality Table.

HARVEY MUDD COLLEGE
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Annuity and Life Income Contracts and Agreements, continued:

On December 2, 1998, the Insurance Commission Chief Counsel granted the College permission to invest its reserves for California annuities pursuant to Insurance Code Section 11521.2(b). This approval is subject to the following conditions: (1) maintain a nationally recognized statistical rating organization bond rating of “A” or better, and (2) maintain an endowment to gift annuity ratio of at least 10:1.

Use Of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes:

In accordance with generally accepted accounting principles, the College had no unrecognized tax benefits at June 30, 2010 and 2009.

Reclassifications:

Certain 2009 amounts have been reclassified to conform to 2010 presentation.

NOTE 2 - ACCOUNTS AND NOTES RECEIVABLE:

Accounts receivable at June 30, 2010 and 2009 are as follows:

	2010	2009
Other Claremont Colleges	\$ 116,059	\$ 102,034
Student accounts	101,566	38,335
Federal grants	1,103,568	827,078
Private grants and contracts	119,093	41,226
Clinics	330,000	373,998
Employee	63,196	52,416
Other	110,734	43,881
	<u>1,944,216</u>	<u>1,478,968</u>
Less allowance for doubtful accounts receivable	(2,531)	(3,670)
Net accounts receivable	<u>\$ 1,941,685</u>	<u>\$ 1,475,298</u>

Notes receivable at June 30, 2010 and 2009 are as follows:

	2010	2009
Student notes receivable	\$ 715,948	\$ 508,411
Federal loan funds - student notes receivable	3,026,007	2,871,123
Faculty loans	284,420	372,271
	<u>4,026,375</u>	<u>3,751,805</u>
Less allowance for doubtful notes receivable	(41,477)	(42,860)
Net notes receivable	<u>\$ 3,984,898</u>	<u>\$ 3,708,945</u>

HARVEY MUDD COLLEGE
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 3 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable are recorded after discounting to the present value of future cash flows at rates ranging from 1.7% to 5.2%. At June 30, 2010, 66.6% of contributions receivable is due from two donors. Contributions receivable at June 30, 2010 and 2009 are expected to be realized in the following periods:

	2010	2009
Within one year	\$ 7,810,274	\$ 13,862,436
Between one year and five years	15,043,656	11,129,586
More than five years	3,553,421	2,614,071
	<u>26,407,351</u>	<u>27,606,093</u>
Less discount	(1,385,907)	(1,318,208)
Less allowance for doubtful contributions receivable	(351,508)	(10,256)
Net contributions receivable	<u>\$ 24,669,936</u>	<u>\$ 26,277,629</u>

Contributions receivable at June 30, 2010 and 2009 are intended for the following uses:

	2010	2009
Endowment for scholarships and professorships	\$ 716,273	\$ 2,820,075
Facilities and equipment	12,241,293	12,198,926
Beneficial interest in trusts held by third parties	1,923,542	1,657,616
Other	9,788,828	9,601,012
Total	<u>\$ 24,669,936</u>	<u>\$ 26,277,629</u>

NOTE 4 - INVESTMENTS:

The following is a summary of data that pertains to the unit value method for pooled investments at June 30, 2010 and 2009:

	2010	2009
Unit market value at end of year	<u>\$ 300.42</u>	<u>\$ 284.04</u>
Units owned:		
Unrestricted:		
Funds functioning as endowment	148,382	145,766
Temporarily restricted:		
Endowment	3,322	5,356
Annuity and life income contracts and agreements	240	457
Permanently restricted:		
Endowment	539,658	531,542
Annuity and life income contracts and agreements	1,026	1,201
Total units	<u>692,628</u>	<u>684,322</u>
Spending rate per unit	<u>\$ 17.46</u>	<u>\$ 16.71</u>

The following schedule summarizes the College's investment returns for the years ended June 30, 2010 and 2009:

	2010	2009
Dividends and interest	\$ 4,211,510	\$ 5,272,015
Rent and other investment income	79,037	93,310
Gains (losses)	18,592,863	(47,350,942)
	<u>22,883,410</u>	<u>(41,985,617)</u>
Less: Investment expense	(954,348)	(1,110,290)
Net investment return	<u>\$ 21,929,062</u>	<u>\$ (43,095,907)</u>

HARVEY MUDD COLLEGE
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 4 - INVESTMENTS, CONTINUED:

The following schedule summarizes the College's investment returns as presented on the Statement of Activities for the years ended June 30, 2010 and 2009:

	2010	2009
Endowment payout	\$ 12,004,645	\$ 11,443,700
Other investment returns	30,059	105,721
Pooled investment gains (losses), net of endowment payout	9,894,358	(54,645,328)
Net investment return	<u>\$ 21,929,062</u>	<u>\$ (43,095,907)</u>

The following schedule summarizes the College's investments at June 30, 2010 and 2009:

By asset type:	2010	2009
Cash equivalents	\$ 19,209,162	\$ 26,855,407
Mutual funds	14,666,067	13,025,514
U.S. Government securities	22,683,482	22,854,919
Corporate bonds	21,146,397	24,758,880
Other fixed income	1,356,191	919,137
Common stocks	103,372,610	96,845,086
Hedge funds	23,202,195	20,529,743
Real properties	2,177,500	2,177,500
Limited partnerships	24,902,619	11,446,057
Other assets	2,519,254	2,677,920
Total by asset type	<u>\$ 235,235,477</u>	<u>\$ 222,090,163</u>

The following schedule summarizes the College's investments at June 30, 2010 and 2009:

By category:	2010	2009
Endowment and funds functioning as endowment:		
Pooled investments	\$ 207,695,585	\$ 193,900,950
Separately invested	758,759	804,461
Total endowment and funds functioning as endowment	<u>208,454,344</u>	<u>194,705,411</u>
Annuity and life income contracts and agreements:		
Pooled investments	385,387	476,338
Separately invested	10,008,883	10,152,547
Total annuity and life income contracts and agreements	<u>10,394,270</u>	<u>10,628,885</u>
Other:		
Separately invested	<u>16,386,863</u>	<u>16,755,867</u>
Total by category	<u>\$ 235,235,477</u>	<u>\$ 222,090,163</u>

HARVEY MUDD COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 5 - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS:

The following table presents the investments and beneficial interest in trusts held by third parties carried on the Statement of Financial Position by level within the valuation hierarchy as of June 30, 2010 and 2009:

	Level 1	Level 2	Level 3	2010
Investments:				
Cash equivalents	\$ 19,209,158	\$ -	\$ -	\$ 19,209,158
Mutual funds	7,980,432	6,685,635	-	14,666,067
U.S. Government securities	1,928	22,681,555	-	22,683,483
Corporate bonds	20,796,397	-	-	20,796,397
Other fixed income	-	1,356,191	-	1,356,191
Common stocks	43,104,345	60,253,701	-	103,358,046
Hedge funds	-	23,202,195	-	23,202,195
Limited partnerships	-	23,119,009	1,783,610	24,902,619
Other assets	215,309	414,716	1,868,610	2,498,635
Beneficial interest in trusts held by third parties	-	-	1,923,542	1,923,542
Total	<u>\$ 91,307,569</u>	<u>\$ 137,713,002</u>	<u>\$ 5,575,762</u>	<u>\$ 234,596,333</u>
	Level 1	Level 2	Level 3	2009
Investments:				
Cash equivalents	\$ 26,855,407	\$ -	\$ -	\$ 26,855,407
Mutual funds	7,430,791	5,594,723	-	13,025,514
U.S. Government securities	1,783	22,853,136	-	22,854,919
Corporate bonds	24,321,380	-	-	24,321,380
Other fixed income	-	919,137	-	919,137
Common stocks	47,495,252	49,335,270	-	96,830,522
Hedge funds	-	-	20,529,743	20,529,743
Limited partnerships	-	-	11,446,057	11,446,057
Other assets	239,785	340,926	2,076,590	2,657,301
Beneficial interest in trusts held by third parties	-	-	1,657,616	1,657,616
Total	<u>\$ 106,344,398</u>	<u>\$ 79,043,192</u>	<u>\$ 35,710,006</u>	<u>\$ 221,097,596</u>

HARVEY MUDD COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

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

The following table is a rollforward of the amounts for the year ended June 30, 2010 and 2009 for assets classified within Level 3:

	Hedge Funds	Limited Partnerships	Other	Beneficial Interest in Trusts	Total
Balance at July 1, 2008	\$ 30,161,721	\$ 13,364,039	\$ 1,923,579	\$ 1,810,043	\$ 47,259,382
Purchases	-	35,200	-	-	35,200
Sales	(4,532,262)	(12,447)	-	-	(4,544,709)
Realized gain/(loss), net	-	-	-	(17,704)	(17,704)
Unrealized gain/(loss), net	(5,099,716)	(1,846,516)	58,792	-	(6,887,440)
Actuarial adjustment	-	-	-	(134,723)	(134,723)
Balance at June 30, 2009	20,529,743	11,540,276	1,982,371	1,657,616	35,710,006
Transfers in/(out) (1)	(20,529,743)	(9,674,040)	-	-	(30,203,783)
Purchases	-	54,550	-	-	54,550
Sales	-	(163,563)	-	-	(163,563)
Realized gain/(loss), net	-	99,330	-	4,243	103,573
Unrealized gain/(loss), net	-	(72,943)	(113,761)	-	(186,704)
Actuarial adjustment	-	-	-	261,683	261,683
Balance at June 30, 2010	\$ -	\$ 1,783,610	\$ 1,868,610	\$ 1,923,542	\$ 5,575,762

(1) Transfers out of Level 3 are due to the implementation of further guidance on accounting standards related to the ability to redeem the investments in the near term.

Net realized and unrealized gains (losses) on investments in the table above are reflected in the lines "Pooled investment gains (losses) net of allocation to operations" and "Other investment returns" on the Statement of Activities. Actuarial adjustment on beneficial interest in trusts in the table above is reflected in the line "Actuarial adjustment" on the Statement of Activities. Net unrealized gains (losses) on investments and actuarial adjustment on beneficial interest in trusts included in the Statement of Activities for Level 3 assets still held at June 30, 2010 are approximately \$(187,000) and \$262,000, respectively.

The following table presents fair value measurements of investments that calculate net asset value per share (or its equivalent) as of June 30, 2010:

	Fair Value	Redemption Frequency	Redemption Notice Period	Strategies and Other Restrictions
Investments:				
Mutual funds	\$ 6,685,635	Monthly	30 days	(a)
Common stocks	60,253,701	Daily, Monthly	None-30 days	(b)
Hedge funds	23,202,195	Quarterly	65 days	(c)
Limited partnerships	24,902,619	Monthly, Quarterly	30-90 days	(d)
Total	<u>\$ 115,044,150</u>			

As of June 30, 2010 there were unfunded commitments of \$161,255 and are due upon demand.

HARVEY MUDD COLLEGE
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

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

(a) This category includes investments in equity securities that seek long term growth in developing countries. Up to 15% can be invested in emerging market fixed income securities.

(b) This category includes investments in domestic equity securities with a large cap growth bias and international value equity securities, and an inflation hedge fund portfolio invested in energy, real estate, commodities, fixed income and climate change sectors.

(c) This category includes investments in a hedge fund portfolio invested across multiple strategies.

(d) This category includes investments in high yield securities, a limited partnership fund of private equity venture capital funds and post-bankruptcy securities. The investment in private equity venture capital funds cannot be redeemed. Distributions from the fund will be received as the underlying investments are liquidated.

NOTE 6 - PLANT FACILITIES:

Plant facilities are recorded at cost or estimated fair value at the date of donation, and at June 30, 2010 and 2009 consists of the following:

	2010	2009
Land and land improvements	\$ 14,314,463	\$ 14,316,463
Buildings	74,192,971	73,029,538
Equipment	5,549,555	5,585,239
Equipment - federal grant projects	2,220,859	1,998,592
Construction in progress	2,663,247	712,060
	<u>98,941,095</u>	<u>95,641,892</u>
Less accumulated depreciation	(39,129,080)	(36,842,104)
Net plant facilities	<u>\$ 59,812,015</u>	<u>\$ 58,799,788</u>

NOTE 7 - NOTE AND BONDS PAYABLE:

At June 30, 2010 and 2009, note and bonds payable were comprised of:

	2010	2009
California Educational Facilities Authority - Series 1997C	\$ 485,000	\$ 1,090,000
California Educational Facilities Authority - Series 2003	3,530,000	4,085,000
Other note	13,064	17,193
	<u>4,028,064</u>	<u>5,192,193</u>
Less unamortized discount and issuance costs	(151,870)	(188,075)
Total note and bonds payable	<u>\$ 3,876,194</u>	<u>\$ 5,004,118</u>

In July 2003, the College issued California Educational Facilities Authority ("CEFA") Revenue Bonds Series 2003 in the aggregate principal amount of \$7,110,000. The bonds are due in annual installments ranging from \$35,000 to \$625,000 through 2033, with interest rates ranging from 3.0% to 4.8% .

Bonds issued in 1997 through CEFA, Pooled College and University Projects, 1997 Series C ("CEFA Series 1997C"), has one remaining installment of \$491,900 in 2011 and interest payable until March 2015. Interest is payable semi-annually at rates ranging from 5.1% to 5.5%. The CEFA Series 1997C bonds are collateralized by a CEFA Series 1990 loan agreement, with one remaining installment of \$485,000 due in 2011 at a rate of 7.0%. The total principal and interest payments made by the College under the CEFA Series 1990 loan agreement fund the CEFA Series 1997C bond payments.

Interest expense was \$233,492 and \$288,405 for the years ended June 30, 2010 and June 30, 2009, respectively and includes amortized discount (premium) and costs of issuance of \$36,205 and \$34,170, respectively.

HARVEY MUDD COLLEGE
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 7 – NOTE AND BONDS PAYABLE, CONTINUED:

During the fiscal year ended June 30, 2008, the College entered into a 9.25% financing agreement to purchase a vehicle. The note is secured by the vehicle and is due in monthly installments of approximately \$460 over a 60 month period.

As of June 30, 2010, note and bond maturities were as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Principal Amount</u>
2011	\$ 1,059,527
2012	594,964
2013	608,573
2014	625,000
2015	35,000
Thereafter	<u>1,105,000</u>
	<u>\$ 4,028,064</u>

The CEFA Series 2003 and 1997C bond agreements contain various restrictive covenants which include the maintenance of certain financial ratios, as defined in the agreements. At June 30, 2010 and 2009, the College was in compliance with all bond covenants.

The estimated fair value of the College's bonds payable was approximately \$4,058,000 and \$5,185,000 at June 30, 2010 and 2009, respectively. This fair value was estimated based upon the discounted amount of future cash outflows based on current rates available to the College for debt of the same remaining maturities.

The College has an unsecured \$1,000,000 line of credit with a bank. Any borrowings on the line would bear interest at either a fluctuating rate per annum of 0.25% above the bank's prime rate or a fixed rate per annum determined by the bank to be 1.75% above LIBOR in effect on the first day of the applicable fixed rate. There were no borrowings outstanding on the line at June 30, 2010 and 2009.

NOTE 8 - FUNDS HELD IN TRUST FOR OTHERS:

Funds held in trust for others totaled approximately \$319,000 and \$299,000 at June 30, 2010 and 2009, respectively. These amounts represent other Claremont College funds and third-party remainder interests held in trust by the College.

NOTE 9 - ASSET RETIREMENT OBLIGATION:

The College has recorded asset retirement obligations related to certain property and equipment, primarily for disposal of regulated materials upon eventual retirement of the assets.

The following schedule summarizes asset retirement obligation activity for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Obligations settled	\$ -	\$ -
Accretion expense	49,958	47,733
	<u>49,958</u>	<u>47,733</u>
Beginning balance	1,074,094	1,026,361
Ending balance	<u>\$ 1,124,052</u>	<u>\$ 1,074,094</u>

HARVEY MUDD COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 10 - NET ASSETS:

At June 30, 2010 and 2009, net assets consists of the following:

	2010	2009
Unrestricted:		
For operations	\$ 87,943	\$ 217,243
For designated purposes	2,873,455	4,605,215
Loans	522,197	573,254
Funds functioning as endowment	42,944,394	38,452,210
Plant facilities	55,188,160	53,430,082
Total unrestricted	\$ 101,616,149	\$ 97,278,004
Temporarily restricted:		
Restricted for specific purposes	\$ 16,898,210	\$ 15,294,894
Endowment	70,226,829	63,658,139
Plant facilities	14,243,817	14,196,150
Annuity and life income contracts and agreements	4,442,399	4,294,556
Total temporarily restricted	\$ 105,811,255	\$ 97,443,739
Permanently restricted:		
Student loans	\$ 1,065,005	\$ 1,217,515
Endowment	95,999,394	95,415,137
Annuity and life income contracts and agreements	2,789,778	2,785,053
Total permanently restricted	\$ 99,854,177	\$ 99,417,705
At June 30, 2010 and 2009, endowment net assets consists of the following:		
Unrestricted endowment		
Funds functioning as endowment	\$ 44,914,521	\$ 41,997,013
Funds with deficiencies	(1,970,127)	(3,544,803)
Total unrestricted endowment funds	42,944,394	38,452,210
Temporarily restricted endowment		
Term endowment	549,566	652,730
Portion of endowment funds subject to a time restriction under California UPMIFA		
Without purpose restriction	7,862,748	7,232,485
With purpose restriction	61,814,515	55,772,924
Total temporarily restricted endowment funds	70,226,829	63,658,139
Permanently restricted endowment	95,999,394	95,415,137
Total endowment net assets	\$ 209,170,617	\$ 197,525,486

HARVEY MUDD COLLEGE
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 11 - NET STUDENT REVENUES:

Student revenues for the years ended June 30, 2010 and 2009 consist of the following:

	2010	2009
Tuition and fees	\$ 29,098,837	\$ 26,884,251
Room and board	8,409,214	7,770,487
Gross student revenues	<u>37,508,051</u>	<u>34,654,738</u>
Less:		
Sponsored student aid	(4,702,383)	(4,712,998)
Un-sponsored student aid	(7,728,579)	(6,509,822)
Financial aid	<u>(12,430,962)</u>	<u>(11,222,820)</u>
Net student revenues	<u>\$ 25,077,089</u>	<u>\$ 23,431,918</u>

Sponsored student aid consists of funds provided by gifts, grants and endowment payout, whereas un-sponsored aid consists of funds provided by the College.

NOTE 12 - OPERATING LEASES:

Revenues

The College owns a 12.5% interest in property located in Escondido, California and the land and facilities are leased to a Delaware corporation. The College renewed the lease in April 2007 for an additional 10 years. In addition, the College leases the rooftop of a campus building to a communications company. The lease term is 5 years, with automatic renewal options for 5 additional 5-year terms. Annual rental income ranges from approximately \$13,000 to \$20,000. Rental income from operating leases totaled approximately \$33,500 and \$32,900 for the years ended June 30, 2010 and 2009, respectively. The following is a summary of future minimum rental revenues as of June 30, 2010:

<u>Fiscal Years Ending June 30,</u>	<u>Rental Revenue</u>
2011	\$ 34,774
2012	32,393
2013	14,520
2014	14,520
2015	14,520
Thereafter	414,916
	<u>\$ 525,643</u>

Expenses

The College leases various office equipment with lease terms that expire through 2013. Annual lease payments range from approximately \$2,200 to \$16,400.

The lease payments for the years ended June 30, 2010 and 2009 were approximately \$65,800 and \$79,700, respectively. The following is a summary of future minimum rental payments for operating leases that have initial or remaining non-cancelable terms in excess of one year as of June 30, 2010:

<u>Fiscal Years Ending June 30,</u>	<u>Lease Payments</u>
2011	\$ 47,134
2012	32,523
2013	22,953
	<u>\$ 102,610</u>

HARVEY MUDD COLLEGE
 NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 13 - INSTITUTIONAL SUPPORT FUND RAISING EXPENSE:

Included in institutional support expenses are approximately \$2,037,000 and \$2,133,000 of expenditures related to fundraising for the years ended June 30, 2010 and 2009, respectively.

NOTE 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. 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.

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010
Investment returns:				
Earned income	\$ 3,230,859	\$ -	\$ -	\$ 3,230,859
Change in net appreciation (depreciation) of investments	12,423,992	6,894,709	(248,032)	\$ 19,070,669
Net investment returns	15,654,851	6,894,709	(248,032)	22,301,528
Endowment returns distributed for operations	(12,019,521)	-	-	(12,019,521)
Spending reinvested	7,102	4,901	321,202	333,205
Net investment returns	3,642,432	6,899,610	73,170	10,615,212
Other changes in endowed equity:				
Gifts	3,050	-	334,815	337,865
Other additions, net	846,702	(330,920)	176,272	692,054
Total other changes in endowed equity	849,752	(330,920)	511,087	1,029,919
Net change in endowed equity	4,492,184	6,568,690	584,257	11,645,131
Endowed equity, beginning of year	38,452,210	63,658,139	95,415,137	197,525,486
Endowed equity, end of year	<u>\$ 42,944,394</u>	<u>\$ 70,226,829</u>	<u>\$ 95,999,394</u>	<u>\$ 209,170,617</u>

At June 30, 2010, endowed equity consists of the following assets:

Contributions receivable, net	\$ -	\$ -	716,273	716,273
Investments	42,944,394	70,226,829	95,283,121	208,454,344
Total endowed equity	<u>\$ 42,944,394</u>	<u>\$ 70,226,829</u>	<u>\$ 95,999,394</u>	<u>\$ 209,170,617</u>

HARVEY MUDD COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 14 - ENDOWMENT, CONTINUED:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009
Investment returns:				
Earned income	\$ 4,047,414	\$ -	\$ -	\$ 4,047,414
Change in net appreciation (depreciation) of investments	(53,420,747)	6,321,038	(118,382)	\$ (47,218,091)
Net investment returns	(49,373,333)	6,321,038	(118,382)	(43,170,677)
Endowment returns distributed for operations	(11,465,620)	-	-	(11,465,620)
Spending reinvested	6,385	4,421	320,615	331,421
Net investment returns	(60,832,568)	6,325,459	202,233	(54,304,876)
Other changes in endowed equity:				
Gifts	3,250	-	2,305,448	2,308,698
Other additions, net	(1,760,219)	-	406,701	(1,353,518)
Total other changes in endowed equity	(1,756,969)	-	2,712,149	955,180
Reclassification based on change in law (UPMIFA)	(56,684,371)	56,684,371	-	-
Net change in endowed equity	(119,273,908)	63,009,830	2,914,382	(53,349,696)
Endowed equity, beginning of year	157,726,118	648,309	92,500,755	250,875,182
Endowed equity, end of year	<u>\$ 38,452,210</u>	<u>\$ 63,658,139</u>	<u>\$ 95,415,137</u>	<u>\$ 197,525,486</u>
At June 30, 2009, endowed equity consists of the following assets:				
Contributions receivable, net	\$ -	\$ -	\$ 2,820,075	\$ 2,820,075
Investments	38,452,210	63,658,139	92,595,062	194,705,411
Total endowed equity	<u>\$ 38,452,210</u>	<u>\$ 63,658,139</u>	<u>\$ 95,415,137</u>	<u>\$ 197,525,486</u>

NOTE 15 - RELATED PARTY TRANSACTIONS:

A College Trustee is an executive of an investment company that manages a mutual fund in which the College has invested approximately \$8,000,000 and \$7,000,000 of its endowment for the years ended June 30, 2010 and 2009, respectively.

The College has interest free faculty loans with 10 faculty members that mature through August 2017. As of June 30, 2010 and 2009, the faculty loan receivable balance was \$284,420 and \$372,271, respectively.

Trustee support of the College consists of contributions to the College. Total contributions from Trustees during fiscal years ended June 30, 2010 and 2009 totaled approximately \$2,092,000 and \$28,402,000 respectively. At June 30, 2010 and 2009 trustee contributions receivable totaled approximately \$13,627,000 and \$14,725,000, respectively.

HARVEY MUDD COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 16 - EMPLOYEE BENEFIT PLANS:

The College maintains, with other members of The Claremont Colleges (Note 17), a defined contribution retirement plan which provides retirement benefits to eligible personnel through Teachers Insurance and Annuity Association and The College Retirement Equity Fund. Under this defined contribution plan, College and participant contributions are used to purchase individual annuity contracts and investments equivalent to retirement benefits earned. Vesting provisions are full and immediate. Benefits commence upon retirement, and pre-retirement survivor death benefits are provided. College contributions to the plan for the years ended June 30, 2010 and 2009 totaled approximately \$2,257,000 and \$2,202,000, respectively.

The Claremont University Consortium administers a defined benefit plan (the "Plan") covering substantially all nonacademic employees of the College, along with those of the other Claremont Colleges. The Plan is funded in accordance with the Employer Retirement Income Security Act of 1974 (ERISA). The benefits are based on career average compensation, and amount of employee contributions. Plan assets are invested in a diversified group of equity and fixed-income securities and in an insurance company's separate and general accounts. The College's allocation of the net pension cost for the years ended June 30, 2010 and 2009 was approximately \$155,000 and \$29,000, respectively. The Plan was curtailed in the year ended June 30, 2004 subsequent to the Plan's measurement date. Participants in this plan participated in the College's defined contribution plan effective July 1, 2005, subject to eligibility requirements. The impact of the curtailment is a reduction to the benefit obligation. Additional information on the Plan can be obtained from the 2005-2006 annual report which includes the audited financial statements of the Claremont University Consortium.

NOTE 17 - AFFILIATED INSTITUTIONS:

The College is a member of an affiliated group of colleges known as The Claremont Colleges. Each college is a separate corporate entity governed by its own Board of Trustees. Claremont University Consortium, a member of this group, is the central coordinating institution which provides common student and administrative services, including certain central facilities utilized by all The Claremont Colleges. The costs of these services and facilities are shared by the members of the group. Amounts paid by Harvey Mudd College for such services and use of facilities for the years ended June 30, 2010 and 2009 totaled approximately \$3,010,000 and \$3,062,000, respectively.

NOTE 18 - COMMITMENTS AND CONTINGENCIES:

Federal Funding

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

The College has remaining contract commitments to complete the renovation of a residence hall and design of a building totaling approximately \$1,547,000.

Litigation

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

HARVEY MUDD COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 19 - SUBSEQUENT EVENTS:

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The College recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The College's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The College has evaluated subsequent events through October 5, 2010, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that need to be disclosed.

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