

Occidental College
Report on Audited Financial Statements
For the Years Ended June 30, 2008 and 2007

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Occidental College
Balance Sheets
As of June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	\$ 1,651,571	\$ 4,382,491
Assets whose use is limited	27,282,435	20,645,531
Student accounts receivable, less allowance for doubtful accounts of \$206,978 and \$237,059 at June 30, 2008 and 2007, respectively	304,089	366,603
Contracts and grants receivable	1,678,274	1,305,298
Student notes receivable, less allowance for doubtful accounts of \$2,306,738 and \$2,378,076 at June 30, 2008 and 2007, respectively	16,678,092	15,930,593
Contributions receivable, net	1,720,839	2,165,421
Inventories	562,469	536,731
Trust deeds receivable	2,534,920	2,785,875
Investments	410,134,039	434,191,714
Property and equipment, net	127,967,660	105,677,645
Other assets	707,473	1,378,779
Deposits with bank trustees	149,771	150,221
Bond issuance costs	1,822,503	1,265,670
Assets held in trust by others	<u>13,775,073</u>	<u>14,920,526</u>
Total assets	<u>\$ 606,969,208</u>	<u>\$ 605,703,098</u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 13,031,615	\$ 12,098,372
Student deposits and deferred revenue	5,694,163	4,578,339
Bonds payable	89,354,000	70,531,000
Bond premium, net		m-0.0002 Tc-0.0022 Tw9o299()]

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

Occidental College
Statement of Activities
For the Year Ended June 30, 2007 (with comparative totals for the year ended June 30, 2006)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
Operating Revenues					
Tuition and fees	\$ 59,876,839	\$ -	\$ -	\$ 59,876,839	\$ 56,058,197
Room and board	11,220,028	-	-	11,220,028	10,905,145
Less: Financial assistance	<u>(20,645,836)</u>	<u>-</u>	<u>-</u>	<u>(20,645,836)</u>	<u>(20,121,691)</u>
Net student revenues	50,451,031	-	-	50,451,031	46,841,651
Private gifts, grants, and contracts	10,139,775	1,273,458	13,514,492	24,927,725	19,717,513

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

Occidental College
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Changes in net assets	\$ (19,686,988)	\$ 67,778,100
Adjustments to reconcile changes in net assets to net cash (used in)provided by operating activities		
Depreciation and amortization	5,585,903	4,474,241
Loss on disposal of fixed assets	1,039,154	-
Gifts of stock and securities	(773,312)	(5,876,670)
Net unrealized and realized losses (gains) on investments	13,078,864	(52,495,755)
Contributions restricted for long-term investment	(260,909)	(13,514,492)
Student notes receivable, net	(76,359)	89,429
Changes in assets and liabilities		
Student accounts receivable, net	62,514	(78,483)
Contracts and grants receivable	(372,976)	(578,413)
Contributions receivable, net	105,864	(31,667)
Inventories	(25,738)	(13,319)
Other assets	671,306	987,657
Accounts payable and accrued expenses	1,158,029	2,616,462
Student deposits and deferred revenue	1,115,824	1,323,272

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

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

1. Operations and Summary of Significant Accounting Policies

Nature of Operations

Occidental College (the "College") is an independent, coeducational college of liberal arts and sciences, founded in 1887. Occidental College seeks to provide an education of high quality in the best tradition of the liberal arts, emphasizing thorough competence in a chosen field of study together with a broad understanding of our historical and cultural heritage and the relationships among fields of knowledge. The College is accredited by the Western Association of Schools and Colleges.

Basis of Accounting and Reporting

The accompanying financial statements of the College, a not-for-profit educational institution, have been prepared on the accrual basis of accounting in accordance with standards generally accepted in the United States of America and with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Not-for-Profit Organizations*.

Revenues, gains, expenses and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified and reported as follows:

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

1. Operations and Summary of Significant Accounting Policies (Continued)

Unrestricted Net Assets (Continued)

Invested in property and equipment – includes property and equipment stated at cost or fair market value at the date of gift, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives for land improvements (up to 20 years), buildings and improvements (up to 40 years), and equipment and library books (up to 10 years). The College follows the policy of generally recording contributions of long-lived assets directly to unrestricted net assets. However, if the donor stipulates how long the assets must be used, the contributions are recorded as temporarily restricted support. Upon disposition of assets, the cost and related accumulated depreciation is removed with the resulting gain or loss recognized in unrestricted net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. Such assets include certain charitable remainder unitrusts, pooled income funds, gift annuities, and certain pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently Restricted Net Assets

Permanently restricted net assets are those assets subject to donor-imposed stipulations that they be maintained in perpetuity by the College. Generally, the donors of these assets permit the College to use all or part of the investment return on these assets for unrestricted purposes. Such assets primarily include the College's permanent endowment, certain charitable remainder unitrusts, and loan funds established by outside donors.

Revenues and Expenses

Student tuition and fees are recorded as revenues in the period during which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenues.

Contributions are reported as increases in the appropriate category of net assets, except contributions that the donor restricts where the restrictions are met within the same fiscal year, as these contributions are included in unrestricted net assets. Contributions other than cash are recorded at their fair market value or net realizable value at the date of gift.

Revenues from grants and contracts are exchange transactions and are recognized as allowable expenditures under such agreements as costs are incurred.

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases to the appropriate net asset category.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as "net assets released for operations" from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are met in the period in which the assets are acquired or placed into service.

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

1. Operations and Summary of Significant Accounting Policies (Continued)

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

1. Operations and Summary of Significant Accounting Policies (Continued)

Investments

Investments are stated at fair value. The fair value of investments is based on quoted prices from national security exchanges, except for limited partnerships, mortgages, and venture capital which is based on information provided by external investment managers at the most recent valuation period date for the fiscal year-end. Real estate is stated at the lower of cost or fair value. Fair value for real estate is based on market appraisals. Market appraisals are obtained every four years unless a trend in the market warrants more frequent appraisals. Management monitors the activity of external investment managers and performs reconciliations and other procedures to assure that the valuations used in the financial statements are fairly stated. The College believes the carrying amounts of these investments are a reasonable estimate of fair value. Because the limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material. Realized and unrealized gains and losses on investments are the difference between the fair market value and the cost basis of the investments. The net realized and unrealized gains and losses are reported in the Statements of Activities.

All investments of permanently restricted net assets and unrestricted net assets designated as endowment funds are carried in an investment pool unless special considerations or donor stipulations require that they be held separately.

Income on investments of permanently restricted net assets is recorded as revenue in the unrestricted net assets or as additions to temporarily or permanently restricted net assets if specified by the donor.

Total Return Policy

Unrestricted revenue is supplemented by the transfer of additional amounts from unrestricted net assets designated – functioning as endowment income to result in a total return from such investments equivalent to between 5% and 6% of the average market value (as defined) of the investments over a five-year period. Additional amounts may be transferred from unrestricted net assets designated – functioning as endowment to undesignated educational and general net assets at the discretion of the Board of Trustees.

Inventories

Inventories in the bookstore, campus dining, and stockroom are stated at the lower of cost or market. Cost has been determined using the average-cost method.

Bond Issuance Costs

Bond issuance costs represent insurance, issuance and underwriters' costs related to the CEFA Series 2005A and 2005B Bonds and the CEFA Series 2008 Bonds (see Note 6). These amounts are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

1. Operations and Summary of Significant Accounting Policies (Continued)

Collections

Collections, such as rare books and works of art, which were acquired through purchases and contributions since the College's inception, are not recognized as assets on the balance sheets. These collections are held solely for their potential

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

1. Operations and Summary of Significant Accounting Policies (Continued)

Student Loans

The College administers a federal student loan program, the Perkins Student Loan program. Loans made under this program have a ten-year repayment period, with interest rates between 3% and 6%. In the event of termination of the program, the loan repayments would be distributed to the federal government and the College on the basis of their relative contributions to the program. It is anticipated that any uncollectible loan balances would be treated in a similar manner.

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.

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

1. Operations and Summary of Significant Accounting Policies (Continued)

Reclassifications

Within the statement of cash flows, disbursements and collections of student loans has been reclassified from operating activities to investing activities. The prior year amounts have been reclassified to conform with the current year presentation. In the statement of activities, some prior year Co-curricular program expenditures were also reclassified from Marketing expenditures to conform with current year presentation.

Redesignation of Net Assets

Certain amounts previously received from donors have been transferred among net asset categories due to changes in donor designations.

2. Investments

The following is a summary of securities and other investments held at June 30, 2008 and 2007:

	June 30, 2008		
	Cost Basis	Fair Value	Carrying Value
Cash and cash equivalents	\$ 34,509,952	\$ 34,509,952	\$ 34,509,952
Debt securities	58,246,024	58,878,166	58,878,166
Equities	160,339,053	167,098,576	167,098,576
Other equity investments	71,660,981	122,748,292	122,748,292
Nonmarketable alternative investments	20,514,715	24,549,605	24,549,605
Real estate	<u>2,349,447</u>	<u>2,349,447</u>	<u>2,349,447</u>
	<u>\$ 347,620,173</u>	<u>\$ 410,134,039</u>	<u>\$ 410,134,039</u>
	June 30, 2007		
	Cost Basis	Fair Value	Carrying Value
Cash and cash equivalents	\$ 40,058,378	\$ 40,058,378	\$ 40,058,378
Debt securities	60,340,326	59,546,590	59,546,590
Equities	166,975,297	226,480,654	226,480,654
Other equity investments	54,636,366	95,092,060	95,092,060
Nonmarketable alternative investments	8,111,162	10,531,585	10,531,585
Real estate	<u>2,482,447</u>	<u>2,482,447</u>	<u>2,482,447</u>
	<u>\$ 332,603,976</u>	<u>\$ 434,191,714</u>	<u>\$ 434,191,714</u>

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

2. Investments (Continued)

The following schedule summarizes the College's investment return for the years ended June 30, 2008 and 2007:

	2008	2007
Dividends, interest and rents	\$ 15,683,117	\$ 13,410,533
Unrealized (losses) gains, net	(36,839,414)	33,426,437
Realized gains, net	<u>23,760,550</u>	<u>23,048,866</u>
	2,604,253	69,885,836
Less: Investment expense	(3,779,819)	(3,248,487)
Investment income designated for operations	<u>(14,494,351)</u>	<u>(14,141,594)</u>
Realized and unrealized (losses) gains, net of allocation to operations and investment expense	<u>\$ (15,669,917)</u>	<u>\$ 52,495,755</u>

The College paid investment management fees of approximately \$3,489,000 and \$2,967,000 for the years ended June 30, 2008 and 2007, respectively to the Investment companies.

Where permitted by gift agreement and/or applicable government regulations, investments are pooled. Pooled investments and allocations of pooled investment income are accounted for on a unit-market value method. The following schedule summarizes the College's pooled investments for the years ended June 30, 2008 and 2007:

	2008	2007
Unit-market value at end of year	<u>\$ 431.17</u>	<u>\$ 446.12</u>
Units owned		
Unrestricted		
Funds functioning as endowment	<u>156,493</u>	<u>176,298</u>
Total unrestricted	<u>156,493</u>	<u>176,298</u>
Permanently restricted		
Endowment funds	<u>678,334</u>	<u>671,108</u>

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

5. Property and Equipment

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

6. Bonds Payable (Continued)

Future principal payment requirements on the bonds payable are summarized as follows:

<u>Year Ending June 30,</u>	1979 HUD Dormitory Bonds	Series 2005A & 2005B CEFA Bonds	Series 2008 CEFA Bonds	Total
2009	\$ 13,000	\$ 1,195,000		\$ 1,208,000
2010	13,000	1,240,000		1,253,000
2011	14,000	1,275,000	\$ 335,000	1,624,000
2012	14,000	1,325,000	350,000	1,689,000
2013	15,000	1,375,000	365,000	1,755,000
2014 and thereafter	<u>115,000</u>	<u>62,760,000</u>	<u>18,950,000</u>	<u>81,825,000</u>
	<u>\$ 184,000</u>	<u>\$ 69,170,000</u>	<u>\$ 20,000,000</u>	<u>\$ 89,354,000</u>

The estimated fair value of the College's bonds payable was approximately \$89,754,900 and \$71,838,800 at June 30, 2008 and 2007, 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.

Dormitory Bonds

Dormitory bonds are collateralized by mortgages on certain dormitories, net revenues from operations of certain dormitories, and student tuition fees not to exceed \$24,000 in any one year. The bonds are currently redeemable at prices stipulated in the bond indenture agreements.

Under terms of the bond indentures, semiannual payments are required to be paid to a trustee for bond service in amounts sufficient to fund current year principal and interest payments and to maintain deposits with bank trustees at stipulated amounts.

California Educational Facilities Authority Bonds

In March 2008, the College issued \$20,000,000 in bonds through the California Educational Facilities Authority ("CEFA"). The College issued serial bonds with fixed-interest rates ranging from 4.00% to 5.30%, payable on April 1 and October 1 through 2038.

The CEFA Series 2008 Bonds will be used for certain capital projects.

The Series 2008 Bonds are collateralized by the pledge of certain revenues of the College including all tuition, room, and board fees, and other fees or charges arising out of general College operations.

The loan agreements for the 2008 CEFA issue contain restrictive covenants which include the maintenance of certain minimum enrollment levels as well as maintaining assets available for debt coverage at a specified level.

In March 2005, the College issued \$70,335,000 in bonds through the California Educational Facilities Authority ("CEFA"). The College issued serial bonds with fixed-interest rates ranging from 3.00% to 5.25%, payable on April 1 and October 1 through 2036.

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

6. Bonds Payable (Continued)

California Educational Facilities Authority Bonds (Continued)

The CEFA Series 2005A and 2005B Bonds were used to legally defease the outstanding debt from the College's CEFA Series 1997 Bonds, as well as to provide funds for certain capital projects.

The Series 2005A and 2005B Bonds are collateralized by the pledge of certain revenues of the College including all tuition, room, and board fees, and other fees or charges arising out of general College operations.

The loan agreements for the 2005A and 2005B CEFA issue contain restrictive covenants which include the maintenance of certain minimum enrollment levels as well as maintaining assets available for debt coverage at a specified level.

7. Net Assets

Net assets consist of the following at June 30, 2008 and 2007:

	2008	2007
Net assets		
Unrestricted		
Designated – educational and general	\$ 10,245,808	\$ 10,230,675

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

11. New Accounting Standards (Continued)

In February 2007, the FASB issued SFAS No. 159, "Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115." This statement provides an option to report eligible financial assets and liabilities at fair value, with changes in fair value recognized in the statement of activities. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The College is currently evaluating the potential effect on the financial statements of adopting SFAS 159.

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. 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 ia