

Occidental College
Report on Audited Financial Statements
For the Years Ended June 30, 2007 and 2006

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Report of Independent Auditors

Board of Trustees
Occidental College

Occidental College
Balance Sheets
As of June 30, 2007 and 2006

	2007	2006
Assets		
Cash and cash equivalents	\$ 4,382,491	\$ 1,742,722
Assets whose use is limited	20,645,531	42,686,769
Student accounts receivable, less allowance for doubtful accounts of \$237,059 and \$163,034 at June 30, 2007 and 2006, respectively	366,603	288,120
Contracts and grants receivable	1,305,298	726,885
Student notes receivable, less allowance for doubtful accounts of \$2,378,076 and \$2,265,028 at June 30, 2007 and 2006, respectively	15,930,593	16,050,105
Contributions receivable, net	2,165,421	2,133,754
Inventories	536,731	523,412
Trust deeds receivable	2,785,875	2,924,394
Investments	434,191,714	365,347,669
Property and equipment, net	105,677,645	82,138,879
Other assets	1,378,779	2,366,436

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

Occidental College
Statements of Activities
For the Year Ended June 30, 2007 (with comparative totals for the year

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

Occidental College
Statement of Activities
For the Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Tuition and fees	\$ 56,058,197	\$ —	\$ —	\$ 56,058,197
Room and board	10,905,145	—	—	10,905,145
Less: Financial assistance	<u>(20,121,691)</u>	<u>—</u>		

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

Occidental College
Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		

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

Occidental College
Notes to Financial Statements
June 30, 2007 and 2006

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:

Unrestricted Net Assets

Unrestricted net assets are comprised of assets which are for operating purposes or assets which are not subject to donor-imposed restrictions and are general in nature. Unrestricted net assets have been segregated into the following categories:

Designated – Educational and general

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Notes to Financial Statements
June 30, 2007 and 2006

Occidental College
Notes to Financial Statements
June 30, 2007 and 2006

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

Occidental College
Notes to Financial Statements
June 30, 2007 and 2006

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 educational value or historical significance. Management has determined that the cost to establish the current market value is deemed to exceed the benefit and therefore the collections were not assigned a value for the purpose of capitalization. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items have been restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance

Occidental College
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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

Occidental College
Notes to Financial Statements
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1. Operations and Summary of Significant Accounting Policies (Continued)

Reclassifications

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2. Investments (Continued)

The following schedule summarizes the College's investment return for the years ended June 30, 2007 and 2006:

	2007	2006
Dividends, interest and rents	\$ 13,410,533	\$ 11,024,099
Unrealized gains, net	33,426,437	19,094,448
Realized gains, net	<u>23,048,866</u>	<u>17,776,460</u>
	69,885,836	47,895,007
Less: Investment expense	(3,248,487)	(2,443,659)
Investment income designated for operations	<u>(14,141,594)</u>	<u>(13,101,322)</u>
Realized and unrealized gains, net of allocation to operations and investment expense	<u>\$ 52,495,755</u>	<u>\$ 32,350,026</u>

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

Occidental College
Notes to Financial Statements
June 30, 2007 and 2006

3. Trust Deeds Receivable

The College held notes receivable from faculty members and administrators totaling approximately \$2,545,527 and \$2,749,000 at June 30, 2007 and 2006, respectively. These notes are included in the trust deeds receivable balance on the Balance Sheet and are recorded at cost. Such loans were issued under the College's housing assistance program, and are collateralized by first or second deeds of trust. Interest rates range from 5.0% to 6.61% with maturities up to 20 years. The College has \$300,000 and \$755,278 of non-interest-bearing loans included in this amount at June 30, 2007 and 2006, respectively.

4. Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and gift revenue in the appropriate net asset category. Contributions are recorded after discounting at the long-term AFR to the present value of future cash flows. The AFR ranged from 2.48% and 4.88% for the years ended June 30, 2007 and 2006. Amortization of the discount is included in gift revenue.

Contributions receivable are expected to be realized as follows:

	2007	2006
In one year or less	\$ 970,398	\$ 1,078,573
Between one year and five years	<u>1,445,351</u>	<u>1,276,752</u>
	2,415,749	2,355,325
Less: Discount	(136,358)	(105,395)
Allowance for uncollectible amounts	<u>(113,970)</u>	<u>(116,176)</u>
Contributions receivable, net	<u>\$ 2,165,421</u>	<u>\$ 2,133,754</u>

Contributions receivable at June 30, 2007 have the following restrictions:

Endowment for programs, activities and scholarships	\$ 1,630,680
Building construction	225,500
Education and general	<u>559,569</u>
Total	\$ 2,415,749

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5. Property and Equipment

Property and equipment consists of the following at June 30, 2007 and 2006:

	2007	2006
Land and improvements	\$ 9,101,504	\$ 8,900,037
Buildings	111,777,479	109,880,737
Furniture and equipment	32,155,645	29,475,925
Construction-in-progress	<u>27,543,586</u>	<u>4,282,368</u>
	180,578,214	152,539,067
Less: Accumulated depreciation	<u>(74,900,569)</u>	<u>(70,400,188)</u>
Property and equipment, net	<u>\$ 105,677,645</u>	<u>\$ 82,138,879</u>

Depreciation expense for the years ended June 30, 2007 and 2006 was \$4,500,381 and \$4,571,691, respectively.

6. Bonds Payable

Bonds payable at June 30, 2007 are summarized as follows:

	Authorized and Issued	Remaining Interest Rates	Remaining Bonds Outstanding	Deposits with Bank Trustees
1979 HUD Dormitory Bonds				
Series D	<u>\$ 419,000</u>	3.00%	<u>\$ 196,000</u>	<u>\$ 150,221</u>
Total				
California Educational Facilities Authority ("CEFA") Revenue Bonds				
Series 2005A & 2005B	<u>70,335,000</u>	3.00 to 5.25%	<u>70,335,000</u>	
Total	<u>\$ 70,754,000</u>		<u>\$ 70,531,000</u>	<u>\$ 150,221</u>

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Notes to Financial Statements
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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	Total
2008	\$ 12,000	\$ 1,165,000	\$ 1,177,000
2009	13,000	1,195,000	1,208,000
2010	13,000	1,240,000	1,253,000
2011	14,000	1,275,000	1,289,000
2012	14,000	1,325,000	1,339,000
2013 and thereafter	<u>130,000</u>	<u>64,135,000</u>	<u>64,265,000</u>
	<u>\$ 196,000</u>	<u>\$ 70,335,000</u>	<u>\$ 70,531,000</u>

The estimated fair value of the College's bonds payable was approximately \$71,838,808 and \$71,111,733 at June 30, 2007 and 2006, 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 April 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.

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.

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7. Net Assets

Net assets consist of the following at June 30, 2007 and 2006:

	2007	2006
Net assets		
Unrestricted		
Designated – educational and general	\$ 10,230,675	\$ 9,129,913
Designated – functioning as endowment	272,836,821	225,162,403
Designated – student loan funds	3,061,984	3,055,951
Designated – life income and annuity contracts	3,136,730	2,519,173
Designated – renewal and replacement	816,213	388,256
Invested in property and equipment	<u>50,127,297</u>	<u>46,733,790</u>
Total unrestricted net assets	<u>340,209,720</u>	<u>286,989,486</u>
Temporarily restricted		
Contracts	812,493	986,399
Life income and annuity contracts	6,185,483	6,049,199
Property and equipment funds	4,279,484	5,133,402
Contributions receivable, net	714,697	1,251,065
Assets held in trust by others	<u>8,708,131</u>	<u>6,772,142</u>
Total temporarily restricted net assets	<u>20,700,288</u>	<u>20,192,207</u>
Permanently restricted		
Endowment corpus	104,929,388	90,932,437
Life income and annuity contracts	9,302,684	10,303,206
Loan funds	11,549,313	11,459,723
Contributions receivable, net	1,450,724	882,689
Assets held in trust by others	<u>6,212,395</u>	<u>5,816,664</u>
Total permanently restricted net assets	<u>133,444,504</u>	<u>119,394,719</u>
Total net assets	<u>\$ 494,354,512</u>	<u>\$ 426,576,412</u>

8. Retirement Plan

All academic and nonacademic employees are eligible to participate in the Teachers Insurance and Annuity Association (“TIAA”) and/or the College Retirement Equity Fund (“CREF”) defined contribution programs. TIAA is a nonprofit, legal reserve life insurance and annuity company and CREF is a nonprofit corporation companion to TIAA.

Benefits are funded by contributions from both the College and participating employees. All contributions are credited to participant accounts, and all College contributions are fully vested. The College’s contributions for the years ended June 30, 2007 and 2006 were approximately \$2,581,000 and \$2,781,000, respectively, which are included as expenditures in the statements of activities.

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Notes to Financial Statements
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9. Fundraising Expenses

During the years ended June 30, 2007 and 2006, the College incurred fundraising expenses of approximately \$3,151,000 and \$3,180,000, respectively, exclusive of expenses for Alumni Relations and Public Relations.

10. Commitments and Contingencies

In connection with certain other equity investments, the College has committed to make additional investments totaling approximately \$16,397,800 over the next several years.

In the normal course of operations, the College is named as a defendant in lawsuits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management is of the opinion that liabilities, if any, arising from such litigation and examinations would not have a material effect on the College's financial position.

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

11. New Accounting Standards

In September 2006 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*