



**Financial Statements and Report of Independent
Certified Public Accountants**

OCCIDENTAL COLLEGE

June 30, 2009 and 2008

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Report of Independent Certified Public Accountants

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We have audited the accompanying balance sheet of Occidental College (the "College") as of June 30, 2009 and the related statements of activities and cash flows for the year 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 audit. The financial statements of the College as of and for the year ended June 30, 2008 were audited by other auditors. These auditors expressed an unqualified opinion on those financial statements in their report dated October 20, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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

Occidental College
BALANCE SHEETS
As of June 30, 2009 and 2008

| | 2009 | 2008 |
|--|--------------|--------------|
| Cash and cash equivalents | \$ 2,917,741 | \$ 1,651,571 |
| Assets whose use is limited | 13,738,198 | 27,282,435 |
| Student accounts receivable, less allowance for doubtful accounts of \$242,670 and \$206,978 at June 30, 2009 and 2008, respectively | 333,737 | 304,089 |
| Contracts and grants receivable | 1,039,295 | 1,678,274 |
| Contributions receivable, net | 1,382,924 | 1,720,839 |
| Inventories | 562,441 | 562,469 |
| Other assets | 835,269 | 707,473 |
| Deposits with bank trustees | 136,018 | 149,771 |
| Trust deeds receivable | 2,369,553 | 2s |

The accompanying notes are an integral part of this statement.

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Occidental College
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

(with comparative totals for the year ended June 30, 2007)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2008 Total | 2007 Total |
|---|---------------|---------------------------|---------------------------|---------------|---------------|
| Operating Revenues | | | | | |
| Tuition and fees | \$ 64,706,361 | \$ - | \$ - | \$ 64,706,361 | \$ 59,876,839 |
| Room and board | 11,710,089 | - | - | 11,710,089 | 11,220,028 |
| Less: Financial assistance | (23,350,334) | - | - | (23,350,334) | (20,645,836) |
| Net student revenues | 53,066,116 | - | - | 53,066,116 | 50,451,031 |
| Private gifts, grants and contracts | 7,410,767 | 371,758 | 2,194,677 | 9,977,202 | 24,927,725 |
| Federal and state grants and contracts | 2,874,125 | - | - | 2,874,125 | 2,543,305 |
| Investment income designated for operations | 14,494,351 | - | - | 14,494,351 | 14,141,594 |
| Other | 4,534,778 | 220 | 1,882 | 4,536,880 | 4,678,406 |
| Net assets released from restrictions | 61,980 | (61,980) | - | - | - |
| Total revenues | 82,442,117 | 309,998 | 2,196,559 | 84,948,674 | 96,742,061 |
| Operating Expenditures | | | | | |
| Academic program | 43,664,188 | - | - | 43,664,188 | 39,703,891 |
| Co-curricular program | 24,286,220 | - | - | 24,286,220 | 20,170,649 |
| Public service | 3,353,260 | - | - | 3,353,260 | 3,353,260 |

The accompanying notes are an integral part of this statement.

Occidental College
 STATEMENTS OF CASH FLOWS
 As of June 30, 2009 and 2008

| | 2009 | 2008 |
|---|-----------------|-----------------|
| Cash flows from operating activities | | |
| Changes in net assets | \$ (93,257,423) | \$ (19,686,988) |
| Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 6,218,757 | 5,585,903 |
| Loss on disposal of fixed assets | - | 1,039,154 |
| Gifts of stock and securities | (158,335) | (773,312) |

The accompanying notes are an integral part of this statement.

Occidental College
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2009 and 2008

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued

Unrestricted Net Assets (continued)

Designated – Life income and annuity contracts – the College has legal title to life income and annuity contracts and agreements, subject to life interests of the beneficiaries. No significant financial benefit is or can be realized until the contractual obligations are released

Designated – Renewal and replacement – includes amounts internally designated for renewal and replacement of property and equipment.

Invested in property and equipment – includes property and equipment stated at cost or fair market value at the date of gift, less accumulated depreciation and any related debt. 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

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued

Revenues and Expenses

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents representing assets held as endowment and similar funds and assets held for annuity and life income payments are included in long-term investments. Cash and cash equivalents are reported at cost which approximates fair value.

The College has cash balances that periodically exceed the Federal Deposit Insurance Corporation limit of \$100,000 per depository bank. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 raised the Federal Deposit Insurance Corporation (“FDIC”) insured limit to \$250,000 on interest bearing accounts temporarily through June 30, 2013. In addition, under this program all non-interest bearing transaction accounts are fully guaranteed by the FDIC through June 30, 2010.

Assets Whose Use Is Limited

Certain proceeds of the serial bonds (see Note 7) held by trustees are limited as to use in accordance with the requirements of the trust agreements. The workers’ compensation bank account is also limited as to use in accordance with State of California and insurance requirements. The assets whose use is limited are comprised of cash and cash equivalents.

Assets whose use is limited are recorded at fair value.

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 are based on information provided by external investment managers at the most recent valuation

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued

Investments (continued)

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.

Management of Pooled Investments

The College follows an investment policy for its pooled endowment investments which anticipates a greater long-range return through investing for capital appreciation and long-term growth. According to the College's policy, the amount of investment return available for current operations is determined by applying a specified percentage, 5.4%, of a twenty-one-quarter average unit market value to the units held as of June 30 of the prior fiscal year.

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 7). These amounts are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

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 recoveries are reflected as increases in the appropriate net asset category.

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued

Estates and Trusts

The College is named beneficiary of various estates in probate. Unless the ultimate amount available

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued

Fair Value of Financial Instruments (continued)

Long-term debt – 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.

Comparative Summarized Amounts

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

Redesignation of Net Assets

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

Reclassifications

Certain prior year amounts have been reclassified to agree with current year presentation

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 2 – FAIR VALUE MEASUREMENTS - Continued

Inputs that are derived principally from or corroborated by observable market data by correlation or to other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table summarizes the valuation of the College's investments by the SFAS 157 fair value hierarchy levels as of June 30, 2009:

| | Level 1 | Level 2 | Level 3 | Total Investments |
|---------------------------------------|----------------|---------------|----------------|-------------------|
| Cash and cash equivalents | \$ 26,529,074 | \$ - | \$ - | \$ 26,529,074 |
| Debt securities | 43,893,943 | 7,631,987 | 1,752,500 | 53,278,430 |
| Equities | 51,626,517 | 50,154,496 | 25,286,761 | 127,067,774 |
| Other equity investments | - | - | 83,643,820 | 83,643,820 |
| Nonmarketable alternative investments | - | - | 30,213,805 | 30,213,805 |
| Total | \$ 122,049,534 | \$ 57,786,483 | \$ 140,896,886 | \$ 320,732,903 |

Occidental College

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 5 – CONTRIBUTION RECEIVABLE - Continued

Contributions receivable are expected to be realized as follows:

| | <u>2009</u> | <u>2008</u> |
|-------------------------------------|--------------------|--------------------|
| | \$ 633,670 | \$ 847,670 |
| In one year or less | <u>908,928</u> | <u>1,054,224</u> |
| Between one year and five years | 1,542,598 | 1,901,894 |
| Less: Discount | (86,888) | (90,484) |
| Allowance for uncollectible amounts | <u>(72,786)</u> | <u>(90,571)</u> |
| Contributions receivable, net | <u>\$1,382,924</u> | <u>\$1,720,839</u> |

Contributions receivable at June 30, 2009 have the following restrictions:

| | |
|---|--------------------|
| Endowment for programs, activities and scholarships | \$ 851,533 |
| Building construction | 164,000 |
| Education and general | <u>527,065</u> |
| Total | <u>\$1,542,598</u> |

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2009 and 2008:

| | <u>2009</u> | <u>2008</u> |
|--------------------------------|----------------------|----------------------|
| Land and improvements | \$ 6,035,514 | \$ 6,010,477 |
| Buildings | 169,400,289 | 150,945,266 |
| Furniture and equipment | 20,812,472 | 19,296,432 |
| Construction-in-progress | <u>1,503,334</u> | <u>12,081,618</u> |
| | 197,751,609 | 188,333,793 |
| Less: Accumulated depreciation | <u>(65,645,344)</u> | <u>(60,366,133)</u> |
| Property and equipment, net | <u>\$132,106,265</u> | <u>\$127,967,660</u> |

Depreciation expense for the years ended June 30, 2009 and 2008 was \$6,224,081 and \$5,591,226, respectively. Loss on disposal was \$0 and \$1,039,154 for the years ending June 30, 2009 and 2008, respectively.

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 7 – BONDS PAYABLE

Bonds payable at June 30, 2009 and 2008 are summarized as follows:

| | <u>Authorized and Issued</u> | <u>Remaining Interest Rates</u> | <u>Remaining Bonds Outstanding</u> | <u>Deposits with Bank Trustees</u> |
|---|----------------------------------|-------------------------------------|--|--|
| 1979 HUD Dormitory Bonds Series D | \$ 419,000 | 3.00% | \$ 171,000 | \$136,018 |
| California Educational Facilities Authority ("CEFA") Revenue Bonds Series 2005A & 2005B | 70,335,000 | 3.00 to 5.25% | 67,975,000 | |
| Series 2008 | <u>20,000,000</u> | 4.00 to 5.30% | <u>20,000,000</u> | |
| Total | <u>\$90,754,000</u> | | <u>\$88,146,000</u> | <u>\$136,018</u> |

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

| <u>Year Ending June 30,</u> | <u>1979 HUD Dormitory Bonds</u> | <u>Series 2005A & 2005B CEFA Bonds</u> | <u>Series 2008 CEFA Bonds</u> | <u>Total</u> |
|---------------------------------|---|--|---------------------------------------|----------------------|
| 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 | 15,000 | 1,430,000 | 375,000 | 1,820,000 |
| 2015 and thereafter | <u>100,000</u> | <u>61,330,000</u> | <u>18,575,000</u> | <u>80,005,000</u> |
| | <u>\$ 171,000</u> | <u>\$ 67,975,000</u> | <u>\$ 20,000,000</u> | <u>\$ 88,146,000</u> |

The estimated fair value of the College's bonds payable was approximately \$86,411,700 and \$89,754,900 at June 30, 2009 and 2008, 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.

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 7 – BONDS PAYABLE - Continued

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 were 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. The College was in compliance with all loan covenants at June 30, 2009.

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.

The CEFA Series 2005A and 2005B Bonds were used to legally decrease the outstanding debt from

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 8 – NET ASSETS

Net assets consist of the following at June 30, 2009 and 2008:

| | 2009 | 2008 |
|--|---------------|---------------|
| Unrestricted | | |
| Designated – educational and general | \$ 9,347,051 | \$ 10,245,808 |
| Designated – functioning as endowment | 44,281,487 | 249,021,639 |
| Designated – student loan funds | 2,258,782 | 2,934,780 |
| Designated – life income and annuity contracts | 2,446,887 | 3,096,115 |
| Designated – renewal and replacement | 728,397 | 1,205,683 |
| Invested in property and equipment | 53,147,195 | 55,439,016 |
| Total unrestricted net assets | 112,209,799 | 321,943,041 |
| Temporarily restricted | | |
| Contracts | 903,892 | 963,507 |
| Accumulated endowment investment gains | 120,975,090 | - |
| Life income and annuity contracts | 4,722,866 | 5,790,572 |
| Property and equipment funds | 4,335,879 | 4,645,710 |
| Contributions receivable, net | 603,970 | 608,835 |
| Assets held in trust by others | 5,966,684 | 8,070,943 |
| Total temporarily restricted net assets | 137,508,381 | 20,079,567 |
| Permanently restricted | | |
| Endowment corpus | 111,204,227 | 107,913,493 |
| Life income and annuity contracts | 5,276,984 | 6,101,159 |
| Loan funds | 11,903,735 | 11,814,130 |
| Contribution receivable, net | 778,954 | 1,112,004 |
| Assets held in trust by others | 2,528,021 | 5,704,130 |
| Total permanently restricted net assets | 131,691,921 | 132,644,916 |
| Total net assets | \$381,410,101 | \$474,667,524 |

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 9 – 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, 2009 and 2008 were approximately \$3,321,000 and \$3,161,000, respectively, which are included as expenditures in the Statements of Activities.

NOTE 10 - FUNDRAISING EXPENSES

During the years ended June 30, 2009 and 2008, the College incurred fundraising expenses of approximately \$3,338,000 and \$3,743,000, respectively, exclusive of expenses for Alumni Relations and Public Relations.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In connection with certain other equity investments, the College has committed to make additional investments totaling approximately \$26,832,000 over the next several years.

In the normal course of operations, the College is named as a defendant in lawsuits and is subject to

Occidental College
NOTES TO FINANCIAL STATEMENTS - CONTINUED
As of June 30, 2009 and 2008

NOTE 12 - ENDOWMENT FUNDS - Continued

The Board of Trustees of the College interpreted 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 so much of an endowment fund as the College determines prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. As a result of this interpretation, the College classifies as permanently restricted net assets, the original value of gifts donated to the endowment, original value of subsequent gifts to the endowment, and accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the College in a manner consistent with the standard of prudence prescribed by UPMIFA which includes the:

- 1) Duration and preservation of the fund
- 2) Mission of the College and the donor-restricted 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 College

NOTE 13 - NEW ACCOUNTING STANDARDS

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosures of events that occur after the date of the statement of financial position but before financial statements are issued or are available to be issued. Among other things, SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for financial periods ending after June 15, 2009. The statement did not have a material effect on the College's financial statements. In connection with the adoption of SFAS 165, the College has evaluated subsequent events through December 15, 2009, the date the financial statements were available to be issued. The College is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

In June 2009, the FASB issued SFAS No. 168, Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS 168 does not change GAAP and will not have a material impact on the College's financial statements.