

Occidental College
Report on Audited Financial Statements
For the Years Ended June 30, 2006 and 2005

Report of Independent Auditors

Board of Trustees
Occidental College

In our opinion, the accompanying balance sheets and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Occidental College (the "College") at June 30, 2006 and 2005, 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. 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 of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12 of the financial statements, the College applied the provisions of FASB Interpretation No. 47 and changed its method of reporting conditional asset retirement obligations.



December 18, 2006

Occidental College
Balance Sheets
As of June 30, 2006 and 2005

| | 2006 | 2005 |
|---|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,742,722 | \$ 8,913,115 |
| Assets whose use is limited | 42,686,769 | 42,724,008 |
| Student accounts receivable, less allowance for doubtful accounts of \$163,034 and \$187,618 at June 30, 2006 and 2005, respectively | 288,120 | 443,954 |
| Contracts and grants receivable | 726,885 | 862,393 |
| Student notes receivable, less allowance for doubtful accounts of \$2,265,028 and \$2,208,117 at June 30, 2006 and 2005, respectively | 16,050,105 | 16,113,999 |
| Contributions receivable, net | 2,133,754 | 2,291,675 |
| Inventories | 523,412 | 501,685 |
| Trust deeds receivable | 2,924,394 | 3,154,609 |
| Investments | 365,347,669 | 322,245,836 |
| Property and equipment, net | 82,138,879 | 77,530,350 |
| Other assets | 2,366,436 | 600,594 |
| Deposits with bank trustees | 137,852 | 194,130 |
| Bond issuance costs | 1,312,546 | 1,359,423 |
| Assets held in trust by others | <u>12,588,806</u> | <u>12,656,070</u> |
| Total assets | <u>\$ 530,968,349</u> | <u>\$ 489,591,841</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 9,481,910 | \$ 9,977,132 |
| Student deposits and deferred revenue | 3,255,067 | 3,919,142 |
| Note payable | - | 282,432 |
| Bonds payable | 70,543,000 | 70,600,000 |
| Bond premium, net | 2,044,481 | 2,117,498 |
| Government loans payable | 4,167,567 | 4,167,567 |
| Annuities payable | 12,188,077 | 11,133,803 |
| Other liabilities | <u>2,711,835</u> | <u>-</u> |
| Total liabilities | <u>104,391,937</u> | <u>102,197,574</u> |
| Commitments and contingencies (Note 11) | | |
| Net Assets | | |
| Unrestricted | 286,989,486 | 257,964,506 |
| Temporarily restricted | 20,192,207 | 16,349,732 |
| Permanently restricted | <u>119,394,719</u> | <u>113,080,029</u> |
| Total net assets | <u>426,576,412</u> | <u>387,394,267</u> |
| Total liabilities and net assets | <u>\$ 530,968,349</u> | <u>\$ 489,591,841</u> |

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

Occidental College
Statements of Activities
For the Year Ended June 30, 2006 (with comparative totals for the year
ended June 30, 2005)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2006 Total | 2005 Total |
|---|---------------------|---------------------------|---------------------------|---------------------|---------------------|
| Operating Revenues | | | | | |
| Tuition and fees | \$ 56,058,197 | \$ — | \$ — | \$ 56,058,197 | \$ 54,808,970 |
| Less: Financial assistance | <u>(20,121,691)</u> | <u>—</u> | <u>—</u> | <u>(20,121,691)</u> | <u>(20,075,215)</u> |
| Net tuition revenue | 35,936,506 | | | 35,936,506 | 34,733,755 |
| Private gifts, grants, and contracts | 10,756,854 | 3,578,855 | 5,381,804 | 19,717,513 | 21,061,743 |
| Federal and state grants and contracts | 2,537,275 | — | — | 2,537,275 | 2,646,503 |
| Auxiliary sales and services | 13,694,189 | — | — | 13,694,189 | 13,295,930 |
| Investment income designated for operations | 13,101,322 | — | — | 13,101,322 | 12,765,225 |
| Other | <u>1,725,990</u> | <u>4,391</u> | <u>12,152</u> | <u>1,742,533</u> | <u>1,283,506</u> |
| Total revenues | <u>77,752,136</u> | <u>3,583,246</u> | <u>5,393,956</u> | <u>86,729,338</u> | <u>85,786,662</u> |
| Operating Expenditures | | | | | |
| Educational and general expenditures | | | | | |
| Instruction | 27,538,074 | — | — | 27,538,074 | 26,706,390 |
| Research | 2,042,791 | — | — | 2,042,791 | 2,022,283 |
| Public service | 4,641,497 | — | — | 4,641,497 | 2,890,251 |
| Academic support | 5,450,718 | — | — | 5,450,718 | 5,504,592 |
| Student services | 8,607,524 | — | — | 8,607,524 | 7,882,012 |
| Institutional support | 16,055,950 | — | — | 16,055,950 | 14,091,834 |
| Auxiliary enterprises expenditures | <u>12,452,998</u> | <u>—</u> | <u>—</u> | <u>12,452,998</u> | <u>12,056,069</u> |
| Total expenditures | <u>76,789,552</u> | <u>—</u> | <u>—</u> | <u>76,789,552</u> | <u>71,153,431</u> |
| Operating income | 962,584 | 3,583,246 | 5,393,956 | 9,939,786 | 14,633,231 |

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

Occidental College
Statement of Activities
For the Year Ended June 30, 2005

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-----------------------|-------------------------------|-------------------------------|---------------------|
| Operating Revenues | | | | |
| Tuition and fees | \$ 54,808,970 | \$ — | \$ — | \$ 54,808,970 |
| Less: Financial assistance | <u>(20,075,215)</u> | <u>—</u> | <u>—</u> | <u>(20,075,215)</u> |
| Net tuition revenue | 34,733,755 | — | — | 34,733,755 |
| Private gifts, grants, and contracts | 10,662,986 | 5,787,504 | 4,611,253 | 21,061,743 |
| Federal and state grants and contracts | 2,646,503 | — | — | 2,646,503 |
| Auxiliary sales and services | 13,295,930 | — | — | 13,295,930 |
| Investment income designated for operations | 12,765,225 | — | — | 12,765,225 |
| Other | 1,283,506 | — | — | 1,283,506 |
| Net assets released for operations | <u>38,959</u> | <u>(38,959)</u> | <u>—</u> | <u>—</u> |
| Total revenues | <u>75,426,864</u> | <u>5,748,545</u> | <u>4,611,253</u> | <u>85,786,662</u> |
| Operating Expenditures | | | | |
| Educational and general expenditures | | | | |
| Instruction | 26,706,390 | — | — | 26,706,390 |
| Research | 2,022,283 | — | — | 2,022,283 |
| Public service | 2,890,251 | — | — | 2,890,251 |
| Academic support | 5,504,592 | — | — | 5,504,592 |
| Student services | 7,882,012 | — | — | 7,882,012 |
| Institutional support | 14,091,834 | — | — | 14,091,834 |
| Auxiliary enterprises expenditures | <u>12,056,069</u> | <u>—</u> | <u>—</u> | <u>12,056,069</u> |
| Total expenditures | <u>71,153,431</u> | <u>—</u> | <u>—</u> | <u>71,153,431</u> |
| Operating income | 4,273,433 | 5,748,545 | 4,611,253 | 14,633,231 |
| Other Changes in Net Assets | | | | |
| Net assets released for capital expenditures | 1,101,979 | (1,101,979) | — | — |
| Annuity funds released | 207,649 | (207,649) | — | — |
| Present value adjustment for annuities | (206,177) | (241,375) | (696,338) | (1,143,890) |
| Change in fair market value of assets held in trust by others | — | (79,519) | 142,011 | 62,492 |
| Realized and unrealized gains, net of allocation to operations and net of investment expense of \$956,448 for the year ended June 30 2005 | 21,751,510 | 653,460 | 1,504,001 | 23,908,971 |
| Decrease in student loan reserve | 608,157 | — | — | 608,157 |
| Redesignation | <u>186,298</u> | <u>(186,298)</u> | <u>—</u> | <u>—</u> |
| Total other changes in net assets | <u>23,649,416</u> | <u>(1,163,360)</u> | <u>949,674</u> | <u>23,435,730</u> |
| Changes in net assets | 27,922,849 | 4,585,185 | 5,560,927 | 38,068,961 |
| Net assets, beginning of year | <u>230,041,657</u> | <u>11,764,547</u> | <u>107,519,102</u> | <u>349,325,306</u> |
| Net assets, end of year | <u>\$ 257,964,506</u> | <u>\$ 16,349,732</u> | | |

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

Occidental College
Statements of Cash Flows
For the Years Ended June 30, 2006 and 2005

| | 2006 | 2005 |
|--|---------------|---------------|
| Cash flows from operating activities | | |
| Changes in net assets | \$ 39,182,145 | \$ 38,068,961 |
| Adjustments to reconcile changes in net assets to net cash used in operating activities | | |
| Depreciation and amortization | 4,545,551 | 5,141,362 |
| Gifts of stock and securities | (3,961,523) | (4,651,171) |
| Cumulative effect of change in accounting principle | 2,711,835 | - |
| Net unrealized and realized gains on investments | (33,889,775) | (30,860,629) |

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

Occidental College

Notes to Financial Statements

June 30, 2006 and 2005

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 – includes funds that are internally designated for operational or special use.

Designated – Functioning as endowment – includes certain gifts not otherwise restricted and Board designations of assets to function as endowment, realized and unrealized gains, and reinvested income on endowment funds unless restricted by the terms of the donor agreement.

Designated – Student loan funds – includes lending activity to students utilizing College resources designated for that purpose as well as funds intended for a general College loan program.

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. Depreciation is computed on a straight-line basis over the estimated useful lives for land improvements (20 years), buildings and improvements (40 years), and equipment and library books (5-10 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.

Occidental College
Notes to Financial Statements
June 30, 2006 and 2005

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

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 so are recognized as allowable expenditures under such agreements as 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 reclassifications 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.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not contributions until the conditions on which they depend are substantially met. Unconditional promises to give are donor commitments where there is sufficient evidence they exist, verifiable documentation, no ambiguous conditions, and legally enforceable. If these contributions are to be received after a year and/or over a number of years, they are discounted at a rate equivalent with the long-term applicable federal rate ("AFR"). The discount is amortized and recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any. In addition, an allowance for uncollectible promises to give, based on past collection experience, is recorded.

The financial statements present expenses by functional classification in accordance with the overall educational mission of the College.

Occidental College
Notes to Financial Statements
June 30, 2006 and 2005

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

Revenues and Expenses (Continued)

Depreciation expense is allocated directly based upon the nature of the underlying assets. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds. Plant operations and maintenance represents space-related costs that are allocated to the functional categories directly and/or based on the square footage occupancy.

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.

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 agreement.

Occidental College
Notes to Financial Statements
June 30, 2006 and 2005

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

Total Return Policy

Unrestricted revenue is supplemented by the transfer of additional amounts from unrestricted net assets designated 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 three-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, ca

Occidental College
Notes to Financial Statements
June 30, 2006 and 2005

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

Occidental College
Notes to Financial Statements
June 30, 2006 and 2005

2. Investments

The following is a summary of securities and other investments held at June 30, 2006 and 2005:

| | June 30, 2006 | | |
|---------------------------|-----------------------|-------------------------|---------------------------|
| | Cost Basis | Market Value | Carrying Value |
| Cash and cash equivalents | \$ 26,375,091 | \$ 26,375,091 | \$ 26,375,091 |
| Debt securities | 60,475,329 | 59,182,341 | 59,182,341 |
| Equities | 150,435,238 | 191,999,995 | 191,999,995 |
| Other equity investments | 56,086,421 | 84,242,798 | 84,242,798 |
| Venture capital | 272,997 | 279,754 | 272,997 |
| Real estate | <u>3,274,447</u> | <u>3,274,447</u> | <u>3,274,447</u> |
| | <u>\$ 296,919,523</u> | <u>\$ 365,354,426</u> | <u>\$ 365,347,669</u> |
| | | | |
| | June 30, 2005 | | |
| | Cost Basis | Market Value | Carrying Value |
| Cash and cash equivalents | \$ 21,234,171 | \$ 21,234,171 | \$ 21,234,171 |
| Debt securities | 59,381,911 | 61,482,321 | 61,482,321 |
| Equities | 147,771,069 | 177,879,088 | 177,879,088 |
| Other equity investments | 39,580,000 | 56,710,019 | 56,710,019 |
| Venture capital | 305,790 | 306,552 | 305,790 |
| Real estate | <u>4,634,447</u> | <u>4,634,447</u> | <u>4,634,447</u> |
| | <u>\$ 272,907,388</u> | <u>\$ 322,246,598</u> | <u>\$ 322,245,836</u> |

The following schedule summarizes the College's investment return for the years ended June 30, 2006 and 2005:

| | 2006 | 2005 |
|-------------------------------|---------------|--------------|
| Dividends, interest and rents | \$ 11,024,099 | \$ 6,770,015 |

Occidental College
Notes to Financial Statements
June 30, 2006 and 2005

2. Investments (Continued)

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, 2006 and 2005:

| | 2006 | 2005 |
|----------------------------------|------------------|------------------|
| Unit-market value at end of year | <u>\$ 387.27</u> | <u>\$ 350.54</u> |
| Units owned | | |
| Unrestricted | | |
| Funds functioning as endowment | <u>176,659</u> | <u>171,043</u> |
| Total unrestricted | <u>176,659</u> | <u>171,043</u> |
| Permanently restricted | | |
| Endowment funds | <u>638,385</u> | <u>627,240</u> |
| Total permanently restricted | <u>638,385</u> | <u>627,240</u> |
| Total units | <u>815,044</u> | <u>798,283</u> |

At June 30, 2006 and 2005, investments include \$31,535,349 and \$27,974,045, respectively, in securities related to life income and annuity contracts.

3. Trust Deeds Receivable

The College held notes receivable from faculty members and administrators totaling approximately \$2,749,000 and \$2,961,000 at June 30, 2006 and 2005, 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 \$755,278 of non-interest-bearing loans included in this amount at June 30, 2006 and 2005.

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 4.48% and 2.48% for the years ended June 30, 2006 and 2005. Amortization of the discount is included in gift revenue.

Occidental College
Notes to Financial Statements
June 30, 2006 and 2005

4. Contributions Receivable (Continued)

Contributions receivable are expected to be realized as follows:

| | 2006 | 2005 |
|-------------------------------------|---------------------|---------------------|
| In one year or less | \$ 1,078,573 | \$ 1,779,077 |
| Between one year and five years | <u>1,276,752</u> | <u>726,600</u> |
| | 2,355,325 | 2,505,677 |
| Less: Discount | (105,395) | (49,915) |
| Allowance for uncollectible amounts | <u>(116,176)</u> | <u>(164,087)</u> |
| Contributions receivable, net | <u>\$ 2,133,754</u> | <u>\$ 2,291,675</u> |

Contributions receivable at June 30, 2006 have the following restrictions:

| | |
|---|---------------------|
| Endowment for programs, activities and scholarships | \$ 983,873 |
| Building construction | 325,500 |
| Education and general | <u>1,045,952</u> |
| Total | <u>\$ 2,355,325</u> |

5. Property and Equipment

Property and equipment consists of the following at June 30, 2006 and 2005:

| | 2006 | 2005 |
|--------------------------------|----------------------|----------------------|
| Land and improvements | \$ 8,900,037 | \$ 7,400,988 |
| Buildings | 109,880,737 | 102,034,591 |
| Furniture and equipment | 29,475,925 | 26,881,148 |
| Construction-in-progress | <u>4,282,368</u> | <u>7,496,311</u> |
| | 152,539,067 | 143,813,038 |
| Less: Accumulated depreciation | <u>(70,400,188)</u> | <u>(66,282,688)</u> |
| Property and equipment, net | <u>\$ 82,138,879</u> | <u>\$ 77,530,350</u> |

Depreciation expense for the years ended June 30, 2006 and 2005 was \$4,571,691 and \$4,152,557, respectively.

6. Note Payable

On December 11, 2003, the College signed a Promissory Note (the "Note") with a bank in the amount of \$1,800,000. The balance of \$282,432 was paid in full as of June 30, 2006, pursuant to the terms of the Note.

Occidental College
Notes to Financial Statements
June 30, 2006 and 2005

7. Bonds Payable

Bonds payable at June 30, 2006 are summarized as follows:

| Authorized and Issued | Remaining Interest Rates | Remaining Bonds Outstanding | Deposits with Bank Trustees |
|--------------------------------------|---|--|--|
|--------------------------------------|---|--|--|

Occidental College
Notes to Financial Statements
June 30, 2006 and 2005

Occidental College
Notes to Financial Statements
June 30, 2006 and 2005

8. Net Assets

Net assets consist of the following at June 30, 2006 and 2005:

| | 2006 | 2005 |
|--|--------------|---------------|
| Net assets | | |
| Unrestricted: | | |
| Designated – educational and general | \$ 9,129,913 | \$ 10,891,531 |
| Designated – functioning as endowment | 225,162,403 | 193,843,616 |
| Designated – student loan funds | 3,055,951 | 2,664,958 |
| Designated – life income and annuity contracts | 2,519,173 | 2,326,879 |

Occidental College
Notes to Financial Statements
June 30, 2006 and 2005

10. Fundraising Expenses

During the years ended June 30, 2006 and 2005, the College incurred fundraising expenses of approximately \$3,180,000 and \$2,999,000, respectively, exclusive of expenses for Alumni Relations and Public Relations.

11. Commitments and Contingencies

In connection with certain other equity investments, the College has committed to make additional investments totaling approximately \$10,350,000 over the next several years.

The College redeemed its equity ownership in the College Liability Insurance Company ("CLIC"). At June 30, 2006, the College carried a receivable from CLIC in the approximate amount of \$482,000 on its Balance Sheet, which was paid in July 2006. The College has no further liability associated with CLIC.

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,

Occidental College
Notes to Financial Statements
June 30, 2006 and 2005

12. New Accounting Standards (Continued)

Upon adoption of FIN 47, the College recogniz