REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

OCCIDENTAL COLLEGE

June 30, 2019 and 2018

MOSSADAMS

Table of Contents

Report of Independent Auditors

The Board of Trustees
Occidental College

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Occidental College (the "College"), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated balance sheets of the College as of June 30, 2019 and 2018, and the consolidated changes in their net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the College adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Also, as discussed in Note 2 to the consolidated financial statements, the College adopted the FASB ASU No. 2014-09 (Topic 606), *Revenue from Contracts with Customers,* as amended, and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made.* The ASU has been applied using the modified retrospective method, as of the beginning of its current fiscal year. Our opinion is not modified with respect to these matters.

Moss Adams LLP

Los Angeles, California
October 31, 2019

ASSETS

	June 30, 2019	June 30, 2018
ASSETS		
Cash and cash equivalents	$ 7,044,747	$ 3,719,838
Assets whose use is limited	2,565,573	3,422,756
Student accounts receivable, less allowance for doubtful accounts of $289,983 (2019) and $277,187 (2018)	537,752	587,222
Contracts and grants receivable	3,924,615	1,585,231
Contributions receivable, net	6,342,673	7,542,034
Other assets	3,796,908	3,708,149
Investments	531,655,887	527,653,217
Student notes receivable, net	20,562,111	21,558,935
Assets held in trust by others	6,162,050	6,205,621
Property and equipment, net	183,689,686	171,043,208
Total assets	$ 766,282,002	$ 747,026,211

LIABILITIES AND NET ASSETS

	2019	2018
LIABILITIES		
Accounts payable and accrued expenses	$ 19,214,259	$ 13,660,042
Student deposits and deferred revenue	3,135,331	5,852,125
Note payable	447,226	481,840
Bonds payable	90,561,651	93,378,549
Government loans payable	3,925,245	3,820,612
Annuities payable	13,283,927	14,677,734
Asset retirement obligations	2,678,564	2,631,042
Total liabilities	133,246,203	134,501,944
NET ASSETS		
Without donor restrictions	217,052,402	203,061,073
With donor restrictions	415,983,397	409,463,194
Total net assets	633,035,799	612,524,267
Total liabilities and net assets	$ 766,282,002	$ 747,026,211

See accompanying notes.

Occidental College
Consolidated Statements of Activities

	Without Donor Restrictions	With Donor Restrictions	For the Years Ended June 30, 2019 Total	2018 Total
OPERATING REVENUES				
Student revenues, net	$ 85,901,454	$ -	$ 85,901,454	$ 85,196,632
Private gifts, grants and contracts	7,552,964	4,807,829	12,360,793	8,733,602
Federal and state grants and contracts	4,608,928	-	4,608,928	4,471,142
Auxiliary services, other	2,626,648	-	2,626,648	2,649,759
Investment income designated for operations	4,148,351	16,698,722	20,847,073	20,417,493
Other	2,748,401	182,874	2,931,275	3,288,043
Net assets released from restrictions	19,053,249	(19,053,249)	-	-
Total operating revenues	126,639,995	2,636,176	129,276,171	124,756,671
OPERATING EXPENDITURES				
Instruction	43,655,920	-	43,655,920	42,655,384
Research	4,009,678	-	4,009,678	3,089,150
Public service	4,768,011	-	4,768,011	5,532,271
Academic support	11,370,312	-	11,370,312	10,543,645
Student services	16,119,215	-	16,119,215	15,977,979
Institutional support:				
General	13,817,436	-	13,817,436	12,967,507
Advancement	8,849,329	-	8,849,329	8,210,476
Auxiliary services, student and other	24,047,549	-	24,047,549	23,507,690
Total operating expenditures	126,637,450	-	126,637,450	122,484,102
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	2,545	2,636,176	2,638,721	2,272,569
OTHER CHANGES IN NET ASSETS				
Net assets released for capital expenditures	11,281,432	(11,281,432)	-	-
Private gifts, grants and contracts non-operating	-	10,388,534	10,388,534	10,568,976
Present value adjustment for annuities	-	1,292	1,292	(576,718)
Annuity funds released	328,293	(328,293)	-	-
Change in fair value of assets held in trust by others	-	(43,571)	(43,571)	32,634
Investment gain, net	2,405,405	5,121,151	7,526,556	14,385,596
Change in underwater funds	14,724	(14,724)	-	-
Redesignation of net assets	(41,070)	41,070	-	-
Total other changes in net assets	13,988,784	3,884,027	17,872,811	24,410,488
Changes in net assets	13,991,329	6,520,203	20,511,532	26,683,057
NET ASSETS, beginning of year	203,061,073	409,463,194	612,524,267	585,841,210
NET ASSETS, end of year	$ 217,052,402	$ 415,983,397	$ 633,035,799	$ 612,524,267

See accompanying notes.

	Without Donor Restriction	With Donor Restriction	For the Years Ended June 30, 2018 Total	2017 Total
OPERATING REVENUES				
Student revenues, net	$ 85,196,632	$ -	$ 85,196,632	$ 83,398,863
Private gifts, grants and contracts	8,733,602	-	8,733,602	8,574,686
Federal and state grants and contracts	4,471,142	-	4,471,142	3,835,114
Auxiliary services, other	2,649,759	-	2,649,759	2,805,402
Investment income designated for operations	3,939,372	16,478,121	20,417,493	20,212,431
Other	3,288,043	-	3,288,043	3,028,555
Net assets released from restrictions	16,315,202	(16,315,202)	-	-
Total operating revenues	124,593,752	162,919	124,756,671	121,855,051
OPERATING EXPENDITURES				
Instruction	42,655,384	-	42,655,384	41,910,067
Research	3,089,150	-	3,089,150	2,905,062
Public service	5,532,271	-	5,532,271	4,732,076
Academic support	10,543,645	-	10,543,645	10,075,729
Student services	15,977,979	-	15,977,979	14,748,069
Institutional support:				
General	12,967,507	-	12,967,507	12,210,306
Advancement	8,210,476	-	8,210,476	7,546,758
Auxiliary services, student and other	23,507,690	-	23,507,690	22,868,063
Total operating expenditures	122,484,102	-	122,484,102	116,996,130
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	2,109,650	162,919	2,272,569	4,858,921
OTHER CHANGES IN NET ASSETS				
Net assets released for capital expenditures	4,710,479	(4,710,479)	-	-
Private gifts, grants, and contracts non-operating	-	10,568,976	10,568,976	12,389,575
Present value adjustment for annuities	-	(576,718)	(576,718)	(1,013,790)
Annuity funds released	230,933	(230,933)	-	-
Change in fair value of assets held in trust by others	-	32,634	32,634	312,408
Investment gain, net	3,137,971	11,247,625	14,385,596	35,475,070
Change in underwater funds	55,078	(55,078)	-	-
Redesignation of net assets	929,371	(929,371)	-	-
Total other changes in net assets	9,063,832	15,346,656	24,410,488	47,163,263
Changes in net assets	11,173,482	15,509,575	26,683,057	52,022,184
NET ASSETS, beginning of year	191,887,591	393,953,619	585,841,210	533,819,026
NET ASSETS, end of year	$ 203,061,073	$ 409,463,194	$ 612,524,267	$ 585,841,210

Occidental College
Statements of Consolidated Cash Flows

	Year Ended June 30, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 20,511,532	$ 26,683,057
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,035,069	8,895,462
Amortization of bond issuance costs and premiums, net	(371,898)	(371,898)
Write off of property and equipment	-	159,438
Change in fair value of assets held in trust by others	43,571	(32,634)
Net unrealized and realized gains on investments	(17,153,317)	(26,156,492)
Contributions restricted for long-term investments	(6,128,851)	(5,480,174)
Contributions for capital expenditures	(4,259,683)	(5,088,802)
Change in provision for student notes receivable	(244,402)	46,115
Present value adjustment for annuities	(1,292)	576,718
Change in value of asset retirement obligations	47,522	68,491
Change in value of annuities payable	7,012	1,105,690
Change in assets and liabilities:		
Student accounts receivable	49,470	(89,285)
Contracts and grants receivable	(2,339,384)	(116,840)
Contributions receivable	4,399,617	(663,740)
Other assets	(88,759)	(695,408)
Accounts payable and accrued expenses	678,946	(244,202)
Student deposits and deferred revenue	(2,716,794)	652,255
Net cash provided by (used in) operating activities	1,468,359	(752,249)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in assets whose use is limited	857,183	4,478,332
Disbursement of student notes receivables	(2,128,206)	(2,272,550)
Collection of student notes receivables	3,369,432	3,180,773
Purchases of investments	(155,524,516)	(101,469,850)
Proceeds from sales and maturities of investments	168,675,163	105,035,466
Purchases of property and equipment	(16,806,276)	(11,400,744)
Net cash used in investing activities	(1,557,220)	(2,448,573)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	5,281,879	5,882,426
Contributions for capital expenditures	1,906,399	3,534,761
Change in government loans payable	104,633	(61,790)
Repayment of note payable	(34,614)	(33,259)
Repayment of government loans payable	-	(380,555)
Repayment of bonds payable	(2,445,000)	(2,355,000)
Distributions of annuities payable	(1,399,527)	(1,396,241)
Net cash provided by financing activities	3,413,770	5,190,342
Net change in cash and cash equivalents	3,324,909	1,989,520
CASH AND CASH EQUIVALENTS, beginning of year	3,719,838	1,730,318
CASH AND CASH EQUIVALENTS, end of year	$ 7,044,747	$ 3,719,838
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 3,764,282	$ 3,855,382
SUPPLEMENTAL DISCLOSURE NON-CASH INVESTING AND FINANCING ACTIVITIES		
Unpaid property and equipment purchases	$ 4,875,271	$ 2,486,999

See accompanying notes.

Note 1 – Organization

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.

On June 30, 2016, Occidental College formed a single-member limited liability company, Otway Properties, LLC ("Otway"), under the California Revised Uniform Limited Liability Company Act, in order to hold title to certain real property.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting and reporting – The accompanying consolidated financial statements of the College, a not-for-profit educational institution, have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

The College reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions.

Consolidation – The activities of Otway are consolidated in the College's consolidated financial statements, as required by GAAP. All intercompany balances have been eliminated in consolidation.

Net assets without donor restrictions – Net assets without donor restrictions are comprised of assets which are for operating purposes or assets which are not subject to donor-imposed restrictions and are general in nature. Net assets without donor restrictions have been segregated into the following categories:

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

Functioning as endowment – includes certain gifts not otherwise restricted and Board designations of assets to function as endowment.

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.

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

Note 2 – Summary of Significant Accounting Policies (continued)

Invested in property and equipment – includes property and equipment stated at cost or fair value at the date of gift, less accumulated depreciation and any related debt. Plant purchases with a useful life of five years or more and a cost equal to or greater than $25,000 for land improvements, $50,000 for buildings, and $5,000 for furniture and equipment are capitalized. Depreciation is computed on a straight-line basis over the estimated useful lives for land improvements (up to 20 years), buildings (up to 40 years), and furniture and equipment (up to 10 years). Upon disposition of assets, the cost and related accumulated depreciation is removed with the resulting gain or loss recognized in net assets without donor restrictions. The College follows the policy of generally recording contributions of property and equipment directly to net assets without donor restrictions. However, if the donor stipulates how long the assets must be used, the contributions are recorded as with donor restrictions support. Management has evaluated operating results and considered significant events, if any, and determined that property and equipment are not impaired at June 30, 2019.

Net assets with donor restrictions – Net assets with donor restrictions 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 accumulated endowment investment gains, certain charitable remainder unitrusts, pooled income funds, gift annuities, and certain contributions receivable for which the ultimate purpose of the proceeds is without donor restrictions. 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.

Other net assets with donor restrictions 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 without donor restriction purposes. Such assets primarily include the College's permanent endowment, certain charitable remainder unitrusts, and loan funds established by donors.

Expenses – Expenses are reported as decreases in net assets without donor restrictions. Expirations of net assets with donor restrictions are reported as "net assets released from restrictions" from net assets with donor restrictions to net assets without donor restrictions. Donor restrictions on gifts to acquire long-lived assets are met in the period in which the assets are placed into service.

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

Depreciation expense is allocated to the functional categories 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. Information technology service expense is allocated to functional categories based on employee and student headcount.

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue recognition – On July 1, 2018, the College adopted *Revenue from Contracts with Customers*, as amended, using the modified retrospective method applied to all contracts. 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 revenue.

Revenues from grants and contracts that is nonreciprocal is treated like contributions. If the grant or contract is conditional, a barrier to entitlement exists, revenue is recognized when the barrier is considered overcome and as allowable expenditures under such agreements are incurred, as an increase to assets without donor restrictions. If the grant or contract is unconditional, revenue is reported as an increase in net asset without donor restrictions.

Revenues from sources other than contributions are reported as increases in net assets without donor restrictions when services are rendered. Gains and losses on investments are reported as increases or decreases to the appropriate net asset category.

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 net assets without donor restrictions. Contributions other than cash are recorded at fair value at the date of gift. Non-operating private gifts, grants, and contracts are contributions with donor restrictions for perpetually restricted endowment or capital expenditures. Private gifts, grants, and contracts included in operating revenues are contributions without donor restrictions and exchange transactions. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recorded as 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 they are 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 short-term and mid-term applicable risk adjusted rate. 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.

Cash and cash equivalents – Cash and cash equivalents include short-term, highly liquid investments with a maturity date 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 investments. Cash and cash equivalents are reported at cost which approximates fair value.

Concentration of credit risk – Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash deposits at financial institutions, receivables, 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 (SIPC) insured limits. Concentration of credit risk with respect to student accounts receivable, contracts and grants receivable, and contributions receivable, are limited due to the large number of students, grantors, and donors from which amounts are due, with no single source being significant.

Note 2 – Summary of Significant Accounting Policies (continued)

Assets whose use is limited – Certain proceeds of the serial bonds which are held by trustees are limited as to use in accordance with the requirements of the trust agreements. The assets whose use is limited are comprised of cash and cash equivalents and are recorded at cost, which approximates fair value.

Inventories – Inventories in the bookstore, campus dining, and stockroom are stated at the lower of cost (weighted average cost method) or net realizable value and are presented in other assets on the consolidated balance sheets. On an on-going basis, inventory is evaluated for obsolescence and slow-moving items. If the College's review indicates a reduction in utility below carrying value, inventory is reduced to a new cost basis.

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, and venture capital funds which are based on information provided by external investment managers at the most recent valuation period date for the fiscal year-end. Management monitors the activity of external investment managers and performs reconciliations and other procedures to assure that the valuations used in the consolidated financial statements are fairly stated. The College believes the carrying amounts of these investments are a reasonable estimate of fair value. Because the limited partnerships, and venture capital 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 value and the cost basis of the investments. The realized and unrealized gains and losses, net of investment expenses are reported in the consolidated statements of activities. Real estate is stated at cost.

All investments of net assets with donor restrictions and without donor restrictions 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-term return through investing for capital appreciation and long-term growth. According to the College's endowment spending policy, the amount of investment return available for current operations is determined by applying a specified percentage, 5.05%, of a twenty-one-quarter average unit market value to the units held as of September 30 of the prior fiscal year.

Student notes receivable – The College administers a federal student loan program, the Perkins Student Loan program and two institutional loan programs. Loans made under the federal student loan program have a ten-year repayment period, with interest rates between 3% and 5%. 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. Loans made under the institutional loan programs have a ten-year repayment period, with interest rates between 0% and 5%.

Note 2 – Summary of Significant Accounting Policies (continued)

Bond issuance costs – Bond issuance costs represent issuance and underwriters' costs related to the California Educational Facilities Authority (CEFA) Series 2013A and 2013B and the CEFA Series 2015 Bonds. Bond issuance costs are included as a component of bonds payable on the consolidated balance sheets (Note 9). 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. These collections are held solely for their potential educational value or historical significance. Management has determined that the cost to establish the current fair 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 net assets without donor restrictions in the year in which the items are acquired, or as net assets with donor restrictions if the assets used to purchase the items have been restricted by donors.

Assets held in trust by others – Trusts in which the College is named as irrevocable beneficiary, but is not trustee, are recorded as assets held in trust by others when the College is notified by the trustee. The assets are recorded at fair value based on the statements from the trustees, which are derived from the fair value of the underlying investments of the trusts, and the College's ownership interest in the trust. The College is named beneficiary of various estates in probate. Unless the ultimate amount available for distribution can be determined before the close of the probate proceedings, the College does not record these amounts until the point of asset distribution.

Annuities payable – The College uses the actuarial method of recording life income and annuity contract net assets. Under this method, when a gift is received, cash or investments received are recorded at fair value, while the present value of the aggregate annuity obligation is recorded as a liability, based upon life expectancy tables. The remainder is recorded as revenue in the appropriate net asset category. Investment income and some gains are credited, and annuity payments and investment losses are charged to the liability accounts, with periodic adjustments made between the liability and the net assets to record actuarial gains or losses. The actuarial liability is based on the present value of future payments discounted at 3.34% and the 2012 IAR Mortality Table.

Asset retirement obligations – GAAP defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the College. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability has been recognized.

Use of estimates – The preparation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenues, expenses, and other changes in net assets during the reporting period. While management believes that these estimates are adequate as of June 30, 2019 and 2018, it is possible that actual results could differ from those estimates.

Note 2 – Summary of Significant Accounting Policies (continued)

Income taxes – The College operates as a not-for-profit organization and has been recognized by the Internal Revenue Service as an organization exempt from income taxation pursuant to Internal Revenue Code Section 501(c)(3) on its income other than unrelated business income and has also been recognized by the Franchise Tax Board as exempt from state franchise or income tax pursuant to California Revenue and Taxation Code Section 23701(d) on its income other than unrelated business income. Otway is a single member LLC and therefore disregarded for federal income tax purposes.

As required by GAAP, the College and Otway have identified and evaluated their significant tax positions and have determined that there is no material unrecognized benefit or liability to be recorded. There are no uncertain tax positions for the years ended June 30, 2019 or 2018. There have been no related tax penalties or interest, which would be classified as a tax expense in the consolidated statements of activities.

Fair value of financial instruments – Except for investments and estates and trusts, which are discussed above, for the other financial instruments for which it is practical, the following methods and assumptions are used to estimate fair value:

Receivables – Amounts receivable under student accounts receivable, contracts and grants receivable, contributions receivable, and trust deeds receivable are carried at cost, less allowance for doubtful accounts, which approximates fair value. Determination of the fair value of student notes receivable, which are primarily federally sponsored student notes with U.S. governmental 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.

Long-term debt – 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.

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

Recently adopted accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 (Topic 606): *Revenue from Contracts with Customers*, as amended. The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods and services. The accounting guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgements and changes in judgements and assets recognized from costs incurred to obtain or fulfill a contract. The College has adopted this standard as of the beginning of its current fiscal year, using the modified retrospective method.

Note 2 – Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are a decrease in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks and requiring reporting of expenses by function and nature, as well as enhanced endowment disclosures. The College has adopted this standard as of the beginning of its current fiscal year.

In June 2019, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, and determining whether a contribution is conditional. The College has adopted this standard as of the beginning of its current fiscal year, using the modified retrospective method.

Note 3 – Investments

The following schedule summarizes the assets in pooled investments and the assets held as separate investments at June 30:

	2019	2018
Cash and cash equivalents	$ 63,113,691	$ 83,037,365
U.S. equities	96,836,981	91,238,929
Global equities (developed) funds	64,246,163	64,118,832
Emerging markets equities funds	40,107,166	42,999,521
Domestic fixed income funds	58,926,002	55,906,620
Global fixed income funds	5,870,317	5,622,390
Absolute return funds	63,951,837	56,455,488
Marketable inflation hedging assets funds	31,693,859	38,626,169
Private equity and venture capital	103,781,150	86,484,992
Real estate	3,128,721	3,162,911
	$ 531,655,887	$ 527,653,217

Note 3 – Investments (continued)

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

	2019	2018
Dividends, interest and rents	$ 12,637,523	$ 10,094,651
Realized (losses) gains, net	(1,364,195)	12,346,794
Unrealized gains, net	18,517,512	13,809,698
	29,790,840	36,251,143
Less: investment expense	(1,417,211)	(1,448,054)
investment income designated for operations	(20,847,073)	(20,417,493)
Investment gain, net of allocation to operations and investment expense	$ 7,526,556	$ 14,385,596

Investment income, net of investment expenses was classified as follows for the years ended June 30:

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends, interest and rents	$ 3,350,991	$ 9,286,532	$ 12,637,523
Realized losses, net	(455,922)	(908,273)	(1,364,195)
Unrealized gains, net	3,953,350	14,564,162	18,517,512
Total	$ 6,848,419	$ 22,942,421	$ 29,790,840

	June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends, interest and rents	$ 1,930,171	$ 8,164,480	$ 10,094,651
Realized gains, net	2,655,431	9,691,363	12,346,794
Unrealized gains, net	2,620,246	11,189,452	13,809,698
Total	$ 7,205,848	$ 29,045,295	$ 36,251,143

Note 3 – Investments (continued)

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

	2019	2018
Unit-market value at end of year	$ 433.42	$ 429.36
Units owned:		
Without donor restrictions:		
Funds functioning as endowment	206,420	200,874
Total without donor restrictions	206,420	200,874
With donor restrictions		
Endowment funds	826,392	808,596
Total with donor restrictions	826,392	808,596
Total units	1,032,812	1,009,470

At June 30, 2019 and 2018, investments include approximately $31,726,000 and $33,256,000, respectively, in securities related to life income and annuity contracts.

Note 4 – Fair Value Measurements

The College accounts for its investments at fair value. Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, defined fair value, established a framework used to measure fair value, and expanded disclosures about fair value measurements. The standard prioritized, within the measurement of fair value, the use of market-based information over College-specific information and established a three-level hierarchy for fair value measurement based on the transparency of information, such as the pricing source used in the valuation of an asset or liability as of the measurement date.

Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the College has the ability to access.

Note 4 – Fair Value Measurements (continued)

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable of the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or by 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 determination of where an asset or liability falls in the hierarchy requires significant judgment. The College evaluates its hierarchy disclosures each reporting period and, based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the College expects that changes in classifications between different levels will be rare.

The asset's 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 College's valuation methodologies used for alternative investments measured at fair value is based on net asset value (NAV) of shares held by the College at fiscal year end. The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 4 – Fair Value Measurements (continued)

The following table presents the investments and assets held by others carried on the consolidated balance sheets by level within the valuation hierarchy at June 30:

June 30, 2019	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	Total
Cash and cash equivalents (including assets whose use is limited)	$ 65,679,264	$ -	$ -	$ -	65,679,264
U.S. equities	25,401,682	-	-	71,435,299	96,836,981
Global equities (developed) funds	6,143,975	-	-	58,102,188	64,246,163
Emerging markets equities funds	6,519,679	-	-	33,587,487	40,107,166
Domestic fixed income funds	48,831,049	-	-	10,094,953	58,926,002
Global fixed income funds	-	-	-	5,870,317	5,870,317
Absolute return funds	-	-	-	63,951,837	63,951,837
Marketable inflation hedging assets funds	31,693,859	-	-	-	31,693,859
Private equity and venture capital	-	-	-	103,781,150	103,781,150
Assets held in trust by others	-	-	6,162,050	-	6,162,050
Total	$ 184,269,508	$ -	$ 6,162,050	$ 346,823,231	$ 537,254,789

June 30, 2018	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	Total
Cash and cash equivalents (including assets whose use is limited)	$ 86,460,121	$ -	$ -	$ -	$ 86,460,121
U.S. equities	24,378,562	-	-	66,860,367	91,238,929
Global equities (developed) funds	11,171,295	-	-	52,947,537	64,118,832
Emerging markets equities funds	6,394,968	-	-	36,604,553	42,999,521
Domestic fixed income funds	46,308,165	-	-	9,598,455	55,906,620
Global fixed income funds	-	-	-	5,622,390	5,622,390
Absolute return funds	-	-	-	56,455,488	56,455,488
Marketable inflation hedging assets funds	38,604,281	-	-	21,888	38,626,169
Private equity and venture capital	-	-	-	86,484,992	86,484,992
Assets held in trust by others	-	-	6,205,621	-	6,205,621
Total	$ 213,317,392	$ -	$ 6,205,621	$ 314,595,670	$ 534,118,683

At June 30, 2019 and 2018, investments held at cost totaled $3,128,721 and $3,162,911, respectively.

Note 4 – Fair Value Measurements (continued)

The following table summarizes the reconciliation of the College's Level 3 assets for the years ended June 30:

	June 30, 2019						
	Beginning Balance July 1, 2018	Purchases	Redemptions	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Interest and Dividends	Ending Balance June 30, 2019
Assets held in trust by others	$ 6,205,621	$ -	$ -	$ -	$ (43,571)	$ -	$ 6,162,050

	June 30, 2018						
	Beginning Balance July 1, 2017	Purchases	Redemptions	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Interest and Dividends	Ending Balance June 30, 2018
Assets held in trust by others	$ 6,172,987	$ -	$ -	$ -	$ 32,634	$ -	$ 6,205,621

The College uses the NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value, and (b) prepare their financial statements consistent with the measurement principles or have the attributes of an investment company. The following table lists those investments by major class:

	Fair Value June 30, 2019	Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds	$ 179,090,244	These funds invest mostly in public domestic and international debt and equity securities. The commingled funds are held in partnership or trust format.	$ -	Range from weekly to 184 days	3 - 90 days notice
Absolute return funds	63,951,837	Hedge funds looking to generate steady returns in the range of 7 to 12 percent with relatively low volatility and relatively low correlations to the equity markets.	-	Range from monthly to 3 years	10 - 90 days notice
Private equity	64,060,575	Investments in leveraged buyout, distressed securities, real estate, and energy private limited partnership funds that are meant to generate long term returns similar to the US stock market but would also be expected to perform better in a market in which inflation is rapidly rising.	53,329,503	N/A	N/A
Venture capital	39,720,575	Investments in privately held start up and or fast growing companies expected to generate returns above traditional equity markets.	14,898,383	N/A	N/A
Total	$ 346,823,231		$ 68,227,886		

Note 5 – Contributions Receivable

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and gift revenue in the appropriate net asset category. Contributions are recorded after discounting at the risk adjusted rate. The risk adjusted rates range from .21% and 3.48% for the years ended June 30, 2019 and 2018. Amortization of the discount is included in gift revenue.

As of June 30, unconditional promises to give are expected to be collected in the following periods:

	2019	2018
Less than one year	$ 2,016,665	$ 4,302,249
Between one year and five years	4,095,666	2,916,630
Later than five years	1,250,000	1,250,000
	7,362,331	8,468,879
Less: discount	(823,493)	(693,586)
allowance for uncollectible amounts	(196,165)	(233,259)
Contributions receivable, net	$ 6,342,673	$ 7,542,034

Contributions receivable at June 30, 2019, have the following restrictions:

Endowment for programs, activities and scholarships	$ 1,554,587
Education and general	1,585,349
Building construction	4,222,395
Total contributions receivable, gross	$ 7,362,331

Note 6 – Student Notes Receivable

The College makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2019 and 2018, student loans represented 2.7% and 2.9% of total assets, respectively.

Note 6 – Student Notes Receivable (continued)

At June 30, student loans consisted of the following:

	2019	2018
Federal government programs	$ 4,038,596	$ 5,011,321
Institutional programs	19,263,180	19,589,070
	23,301,776	24,600,391
Less allowance for doubtful accounts:		
Beginning of year	(3,041,456)	(3,012,744)
Decreases/(increases)	244,402	(46,115)
Write-offs	57,389	17,403
End of year	(2,739,665)	(3,041,456)
Student loans receivable, net	$ 20,562,111	$ 21,558,935

The College participated in the Federal Perkins revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $3,925,245 and $3,820,612 at June 30, 2019 and 2018, respectively, are ultimately refundable to the government and are classified as liabilities in the consolidated balance sheets.

As of October 1, 2017, under Federal law, the College may no longer award new Perkins loans to undergraduate students and may not make subsequent disbursements to undergraduate students after June 30, 2018.

Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

At June 30, 2019 and 2018, the following amounts were past due under student loan programs:

June 30,	In default less than 240 days	In default between 240 days and 2 years	In default more than 2 years	Total past due
2019	$ 667,605	$ 414,764	$ 1,508,681	$ 2,591,050
2018	$ 1,371,951	$ 361,126	$ 1,675,162	$ 3,408,239

Note 6 – Student Notes Receivable (continued)

Allowances for doubtful accounts are established based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

Note 7 – Property and Equipment

Property and equipment consists of the following at June 30:

	2019	2018
Land and improvements	$ 10,828,591	$ 10,253,896
Buildings	254,434,435	250,059,513
Furniture and equipment	13,871,975	15,394,450
Construction-in-progress	27,134,577	11,341,084
	306,269,578	287,048,943
Less: accumulated depreciation	(122,579,892)	(116,005,735)
Property and equipment, net	$ 183,689,686	$ 171,043,208

Depreciation expense for the years ended June 30, 2019 and 2018, was $9,035,069 and $8,895,462, respectively.

Note 8 – Deferred Revenue

The activity and balances for student deposits and deferred revenue from contracts with customers are shown in the following table:

	Summer Conferences	Conditional Contributions and Grants	Other Deferred Revenue	Total
Balances at June 30, 2017	$ 956,230	$ 2,854,302	$ 1,389,338	$ 5,199,870
Revenue recognized	(956,230)	(2,671,863)	(154,432)	(3,782,525)
Payments received for future performance obligations	870,027	3,372,843	191,910	4,434,780
Balances at June 30, 2018	870,027	3,555,282	1,426,816	5,852,125
Revenue recognized	(870,027)	(4,462,625)	(143,975)	(5,476,627)
Payments received for future performance obligations	934,436	1,747,732	77,665	2,759,833
Balances at June 30, 2019	$ 934,436	$ 840,389	$ 1,360,506	$ 3,135,331

Note 9 – Debt

Note payable – On September 25, 2014, the College entered into a $600,000 note with an individual to purchase real estate. The loan carries an interest rate of 4% per annum and is secured by the real property. Principal and interest are payable over a 20-year term and will be paid in full on October 3, 2029. At June 30, 2019 and 2018, the unpaid balance under the current note was $447,246 and $481,840, respectively. Interest expense for the fiscal years ended June 30, 2019 and 2018, was $18,643 and $19,999, respectively.

California Educational Facility Authority (CEFA) Bonds – In June 2013, the College issued $54,995,000 in bonds through the CEFA (Series 2013A and 2013B Bonds), with a premium of $7,391,497. The College issued serial bonds with fixed-interest rates ranging from 0.40% to 5.00%, payable on April 1 and October 1 through 2043. The CEFA Series 2013A and 2013B Bonds were used to legally defease $44,435,000 of the College’s previously issued and outstanding CEFA serial 2005A bonds, as well as to provide funds for certain capital projects. The loan agreements for the 2013A and 2013B Bonds contain no restrictive covenants.

In December 2015, the College issued $34,270,000 in bonds through the CEFA (Series 2015 Bonds), with a premium of $4,786,583. The College issued serial bonds with fixed-interest rates ranging from 3.00% to 5.00%, payable on April 1 and October 1 through 2046. The CEFA Series 2015 Bonds were used to refund $13,855,000 of the College’s previously issued and outstanding CEFA serial bonds (series 2005B bonds and series 2008 bonds), as well as to provide funds for certain capital projects. The amount recorded as loss due to the defeasance was $2,472,055. The loan agreements for the 2015 Bonds contain no restrictive covenants.

Note 9 – Debt (continued)

Bonds payable at June 30, 2019, are summarized as follows:

	Authorized and Issued	Remaining Interest Rates	Remaining Bonds Outstanding
CEFA Revenue Bonds:			
Series 2013A & 2013B	$ 54,995,000	1.75% to 5.0%	$ 52,975,000
Series 2015	34,270,000	3.0% to 5.0%	28,330,000
Bond premiums, net	12,178,080		10,120,274
Bond issuance costs	(1,039,167)		(863,623)
Total	$ 100,403,913		$ 90,561,651

Bonds payable at June 30, 2018, are summarized as follows:

	Authorized and Issued	Remaining Interest Rates	Remaining Bonds Outstanding
CEFA Revenue Bonds:			
Series 2013A & 2013B	$ 54,995,000	1.5% to 5.0%	$ 53,460,000
Series 2015	34,270,000	3.0% to 5.0%	30,290,000
Bond premiums, net	12,178,080		10,526,867
Bond issuance costs	(1,039,167)		(898,318)
Total	$ 100,403,913		$ 93,378,549

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

	Series 2013A & 2013B CEFA Bonds	Series 2015 CEFA Bonds	Total
Years Ending June 30,			
2020	$ 1,030,000	$ 1,505,000	$ 2,535,000
2021	1,430,000	1,235,000	2,665,000
2022	1,470,000	1,300,000	2,770,000
2023	1,525,000	1,365,000	2,890,000
2024	1,565,000	1,440,000	3,005,000
2025 and thereafter	45,955,000	21,485,000	67,440,000
Total	$ 52,975,000	$ 28,330,000	$ 81,305,000

Note 9 – Debt (continued)

The estimated fair value of the College's bonds payable was approximately $91,309,348 and $92,403,000 at June 30, 2019 and 2018, 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 (Level 2).

Line of credit – On June 18, 2018, the College renewed a $5,000,000 line of credit with a bank, expiring on February 1, 2020. Interest at the bank's prime rate is payable monthly. The line of credit is collateralized by an all blanket UCC filing. No amounts were drawn on the line of credit as of or during the years ended June 30, 2019 and 2018.

Note 10 – Net Assets

Net assets consist of the following at June 30, 2019 and 2018:

	2019	2018
Without donor restrictions		
Designated – educational and general	$ 23,605,718	$ 22,196,731
Designated – functioning as endowment	89,466,181	86,595,733
Designated – student loan funds	6,479,608	6,128,904
Designated – renewal and replacement	6,344,596	12,703,373
Invested in property and equipment	91,156,299	75,436,332
Total net assets without donor restrictions	217,052,402	203,061,073
With donor restrictions		
Restricted for time and purpose		
Restricted for specific purposes	7,767,323	3,459,165
Accumulated endowment investment gains	192,163,262	188,902,558
Life income and annuity contracts	9,634,385	9,432,998
Property and equipment funds	7,040,905	14,978,238
Contributions receivable, net	4,922,588	5,759,412
Assets held in trust by others	4,257,606	4,282,138
Total restricted for time and purpose net assets	225,786,069	226,814,509
Perpetually restricted		
Endowment corpus	166,465,193	158,735,728
Life income and annuity contracts	8,247,497	8,064,266
Student loan funds	12,160,109	12,142,586
Contributions receivable, net	1,420,085	1,782,622
Assets held in trust by others	1,904,444	1,923,483
Total perpetually restricted net assets	190,197,328	182,648,685
Total net assets with donor restrictions	415,983,397	409,463,194
Total net assets	$ 633,035,799	$ 612,524,267

Note 10 – Net Assets (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors, as follows:

	June 30, 2019	June 30, 2018
Operating activities	$ 19,053,249	$ 16,315,202
Capital expenditures	11,281,432	4,710,479
	$ 30,334,681	$ 21,025,681

Note 11 – 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, 2019 and 2018, were approximately $4,603,000 and $4,328,000, respectively, which are included as expenditures in the consolidated statements of activities.

Note 12 – Fundraising Expenses

During the years ended June 30, 2019 and 2018, the College incurred fundraising expenses of approximately $6,508,000 and $5,650,000, respectively, exclusive of communication, publication, and event-related expenses for the purposes of maintaining alumni and public relations.

Note 13 – Related Parties

Some members of the Board of Trustees contributed to the College in the form of gifts and pledges, during the years ended June 30, 2019 and 2018. Contribution receivable (pledges) includes amounts from members of the College's Board of Trustees of approximately $3,403,000 and $2,773,000 as of June 30, 2019 and 2018, respectively. Private gifts, grants, and contracts includes amounts from members of the College's Board of Trustees of approximately $2,788,000 and $1,153,000 for the years ended June 30, 2019 and 2018, respectively. In addition, members of the Board of Trustees are often also affiliated with separate private foundations that provide financial support in the form of gifts and pledges to the College.

Note 14 – Commitments and Contingencies

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 consolidated 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 consolidated balance sheet of the College.

Note 15 – Endowment Funds

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 net assets with donor restrictions, 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 is also classified as net assets with donor restrictions 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 endowment fund with donor restrictions
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 15 – Endowment Funds (continued)

The following represents a description of the changes in net endowment assets for the years ended June 30:

	June 30, 2019		
	Without Restriction	With Restriction	Total
Net endowment assets, beginning of year	$ 86,595,733	$ 347,638,286	$ 434,234,019
Investment return, net	5,106,830	20,383,664	25,490,494
New gifts	154,108	5,668,766	5,822,874
Matured life income and annuity contracts	247,587	593,952	841,539
Pledge payments	-	846,972	846,972
Other changes, including redesignations	1,495,550	210,261	1,705,811
Appropriation for expenditures	(4,148,351)	(16,698,722)	(20,847,073)
Change in underwater endowments	14,724	(14,724)	-
Net endowment assets, end of year	$ 89,466,181	$ 358,628,455	$ 448,094,636

	June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Net endowment assets, beginning of year	$ 79,912,974	$ 333,516,890	$ 413,429,864
Investment return, net	6,266,510	25,535,414	31,801,924
New gifts	23,155	3,457,280	3,480,435
Matured life income and annuity contracts	210,976	484,305	695,281
Pledge payments	-	952,252	952,252
Other changes, including redesignations	4,066,412	225,344	4,291,756
Appropriation for expenditures	(3,939,372)	(16,478,121)	(20,417,493)
Change in underwater endowments	55,078	(55,078)	-
Net endowment assets, end of year	$ 86,595,733	$ 347,638,286	$ 434,234,019

From time to time, the fair value of the assets associated with individual endowment funds with donor restrictions may fall below the value of the initial and subsequent donor gift amounts.

Note 16 – Functional Expenses

Expenses by function and nature consist of the following for the year ended June 30, 2019:

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Advancement	Auxiliary Enterprises Expenditures	Total Operating Expenses
Salaries	$ 22,862,627	$ 1,068,058	$ 2,344,287	$ 3,848,208	$ 7,989,664	$ 5,552,502	$ 4,735,336	$ 6,104,779	$ 54,505,461
Employee benefits and taxes	6,635,920	258,138	589,311	1,157,740	2,588,953	2,209,217	1,608,664	1,881,662	16,929,605
Depreciation	3,275,850	166,210	50,353	400,363	821,731	284,064	110,655	2,934,609	8,043,835
Interest expense	723,832	-	-	45,601	83,685	92,558	-	2,441,345	3,387,021
Services and supplies	5,628,986	2,312,851	887,755	4,254,010	3,787,605	4,543,323	2,344,603	6,494,635	30,253,768
Maintenance and operations	4,528,705	204,421	896,305	1,664,390	847,577	1,135,772	50,071	4,190,519	13,517,760
	$ 43,655,920	$ 4,009,678	$ 4,768,011	$ 11,370,312	$ 16,119,215	$ 13,817,436	$ 8,849,329	$ 24,047,549	$ 126,637,450

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The statements of activities present expenses by functional classification. Employee benefits including employment taxes are allocated based on employee classification and salaries charged to each function. Operation and maintenance of plant expenses are allocated to functional categories based on building square footage dedicated to that specific function.

Note 17 – Liquidity and Availability

The College's financial assets available to meet its general expenditures within one year of the balance sheet date are as follows:

	June 30, 2019	June 30, 2018
Cash and cash equivalents	$ 7,044,747	$ 3,719,838
Student accounts receivable, net	537,752	587,222
Contracts and grants receivable	3,924,615	1,585,231
Contributions receivable, net	6,342,673	7,542,034
Investments	531,655,887	527,653,217
Student notes receivable, net	20,562,111	21,558,935
Expected FY20 endowment distribution	21,441,495	20,847,073
Total financial assets	591,509,280	583,493,550
Less:		
Restricted investments not available for operations next year	(230,930,168)	(237,136,796)
Any long-term portions of the receivables	(26,904,784)	(29,100,969)
Permanent endowment	(166,465,193)	(158,735,728)
Total financial assets available within one year	167,209,135	158,520,057
Liquidity resources		
Bank lines of credit (available balances)	5,000,000	5,000,000
Total financial assets and liquidity resources available within one year	$ 172,209,135	$ 163,520,057

Note 17 – Liquidity and Availability (continued)

The College regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investments of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the College considers all operating expenditures.

As part of the College's liquidity management, the College maintains a short-term investment portfolio with daily liquidity. Included in the amount of financial assets available at year end for current use above is Designated Funds Functioning as Endowment in the amount of $89,466,180. Although the College does not intend to spend amounts other than those appropriated for general expenditure as part of its annual budget approval and appropriation process, these funds could be made available if necessary through Board action.

The College operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Note 18 – Subsequent Events

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

In October 2019, the College issued $65,620,000 in taxable bonds (Series 2019). The College issued serial bonds with fixed-interest rates ranging from 2.465% to 3.508%, payable on April 1 and October 1 through 2049. The Taxable Bonds, Series 2019 were used to legally defease $46,470,000 of the College's previously issued and outstanding CEFA serial 2013A bonds, as well as to provide funds for certain capital projects. The loan agreement for the Taxable Bonds, Series 2019 contains no restrictive covenants.

The College evaluated its consolidated financial statements for subsequent events through October 31, 2019, the date the consolidated financial statements were available to be issued. The College is not aware of any subsequent events which would require recording or disclosure in the consolidated financial statements.