



Report of Independent Auditors
and Financial Statements
with Supplementary Information for

Occidental College

June 30, 2014 and 2013

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
Occidental College

Report on the Financial Statements

We have audited the accompanying financial statements of Occidental College (the "College"), which comprise the balance sheet as of June 30, 2014 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet of Occidental College as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

MOSS ADAMS LLP***Other Matters******Prior Period Financial Statements and Summarized Comparative Information***

The financial statements of Occidental College as of June 30, 2013 were audited by other auditors whose report dated November 8, 2013, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014 on our consideration of Occidental College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Occidental College's internal control over financial reporting and compliance.



Los Angeles, California
November 7, 2014

OCCIDENTAL COLLEGE
BALANCE SHEETS
JUNE 30, 2014 AND 2013

| ASSETS | 2014 | 2013 |
|--|----------------|----------------|
| Cash and cash equivalents | \$ 5,457,295 | \$ 8,036,573 |
| Assets whose use is limited | 11,488,770 | 12,063,991 |
| Student accounts receivable, less allowance for doubtful accounts of \$302,377 and \$271,335 at June 30, 2014 and 2013, respectively | 320,508 | 339,051 |
| Contracts and grants receivable | 1,492,856 | 1,230,463 |
| Contributions receivable, net | 10,342,588 | 8,502,028 |
| Inventories | 599,899 | 592,967 |
| Other assets | 1,838,898 | 2,066,839 |
| Trust deeds receivable | 496,672 | 540,524 |
| Investments | 467,400,303 | 408,318,102 |
| Student notes receivable, net | 22,814,508 | 22,696,985 |
| Bond issuance costs | 1,370,046 | 1,435,458 |
| Assets held in trust by others | 11,420,924 | 10,557,808 |
| Property and equipment, net | 162,192,938 | 162,757,298 |
| Total assets | \$ 697,236,205 | \$ 639,138,087 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 12,972,973 | \$ 15,511,432 |
| Student deposits and deferred revenue | 4,401,049 | 5,185,425 |
| Bonds payable | 90,010,000 | 92,270,000 |
| Bonds premium, net | 7,395,881 | 7,663,669 |
| Government loans payable | 4,167,567 | 4,167,567 |
| Annuities payable | 14,053,961 | 13,121,755 |
| Asset retirement obligations | 2,463,345 | 2,629,349 |
| Total liabilities | 135,464,776 | 140,549,197 |
| NET ASSETS | | |
| Unrestricted | 174,477,255 | 153,789,556 |
| Temporarily restricted | 227,338,334 | 192,271,241 |
| Permanently restricted | 159,955,840 | 152,528,093 |
| Total net assets | 561,771,429 | 498,588,890 |
| Total liabilities and net assets | \$ 697,236,205 | \$ 639,138,087 |

**OCCIDENTAL COLLEGE
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2014 Total | 2013 Total |
|--|-----------------------|---------------------------|---------------------------|-----------------------|-----------------------|
| Operating Revenues: | | | | | |
| Student revenues: | | | | | |
| Tuition and fees | \$ 95,428,066 | \$ - | \$ - | \$ 95,428,066 | \$ 94,680,642 |
| Room and board | 20,606,141 | - | - | 20,606,141 | 19,725,424 |
| Less: Financial assistance | (39,085,687) | - | - | (39,085,687) | (39,159,550) |
| Net student revenues | 76,948,520 | - | - | 76,948,520 | 75,246,516 |
| Private gifts, grants and contracts | 11,268,427 | - | - | 11,268,427 | 6,831,162 |
| Federal and state grants and contracts | 3,720,980 | - | - | 3,720,980 | 3,451,929 |
| Auxiliary services, other | 2,978,935 | - | - | 2,978,935 | 3,066,082 |
| Investment income designated for operations | 3,247,741 | 14,952,283 | - | 18,200,024 | 18,463,272 |
| Other | 2,730,613 | - | - | 2,730,613 | 2,643,038 |
| Net assets released from restrictions | 14,944,494 | (14,944,494) | - | - | - |
| Total operating revenues | 115,839,710 | 7,789 | - | 115,847,499 | 109,701,999 |
| Operating Expenditures: | | | | | |
| Instruction | 38,882,874 | - | - | 38,882,874 | 37,045,051 |
| Research | 3,142,424 | - | - | 3,142,424 | 2,719,528 |
| Public service | 3,994,251 | - | - | 3,994,251 | 4,046,869 |
| Academic support | 10,108,221 | - | - | 10,108,221 | 9,572,838 |
| Student services | 13,327,041 | - | - | 13,327,041 | 12,797,837 |
| Institutional support: | | | | | |
| General | 10,533,984 | - | - | 10,533,984 | 9,103,394 |
| Advancement | 6,532,688 | - | - | 6,532,688 | 6,507,501 |
| Auxiliary services, student and other | 20,853,250 | - | - | 20,853,250 | 20,360,860 |
| Total operating expenditures | 107,374,733 | - | - | 107,374,733 | 102,153,878 |
| Change in net assets from operating activities | 8,464,977 | 7,789 | - | 8,472,766 | 7,548,121 |
| Other changes in net assets: | | | | | |
| Net assets released for capital expenditures | 2,445,572 | (2,445,572) | - | - | - |
| Loss on bond defeasance | - | - | - | - | (4,757,280) |
| Private gifts, grants and contracts non-operating | 1,227,682 | 1,106,187 | 5,892,267 | 8,226,136 | 10,301,775 |
| Present value adjustment for annuities | - | (289,869) | (1,645,284) | (1,935,153) | (576,768) |
| Change in fair value of assets held in trust by others | - | 739,363 | 123,753 | 863,116 | 687,116 |
| Investment income, net | 8,254,610 | 36,474,434 | 2,826,630 | 47,555,674 | 22,910,699 |
| Change in underwater funds | 469,332 | (469,332) | - | - | - |
| Redesignation of net assets | (174,474) | (55,907) | 230,381 | - | - |
| Total other changes in net assets | 12,222,722 | 35,059,304 | 7,427,747 | 54,709,773 | 28,565,542 |
| Changes in net assets | 20,687,699 | 35,067,093 | 7,427,747 | 63,182,539 | 36,113,663 |
| Net assets, beginning of year | 153,789,556 | 192,271,241 | 152,528,093 | 498,588,890 | 462,475,227 |
| Net assets, end of year | <u>\$ 174,477,255</u> | <u>\$ 227,338,334</u> | <u>\$ 159,955,840</u> | <u>\$ 561,771,429</u> | <u>\$ 498,588,890</u> |

OCCIDENTAL COLLEGE
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE INFORMATION FOR YEAR ENDED JUNE 30, 2012)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2013 Total | 2012 Total |
|--|----------------|---------------------------|---------------------------|----------------|----------------|
| Operating Revenues: | | | | | |
| Student revenues: | | | | | |
| Tuition and fees | \$ 94,680,642 | \$ - | \$ - | \$ 94,680,642 | \$ 89,149,193 |
| Room and board | 19,725,424 | - | - | 19,725,424 | 18,693,265 |
| Less: Financial assistance | (39,159,550) | - | - | (39,159,550) | (37,005,895) |
| Net student revenues | 75,246,516 | - | - | 75,246,516 | 70,836,563 |
| Private gifts, grants and contracts | 6,831,162 | - | - | 6,831,162 | 8,286,621 |
| Federal and state grants and contracts | 3,451,929 | - | - | 3,451,929 | 3,268,968 |
| Auxiliary services, other | 3,066,082 | - | - | 3,066,082 | 3,080,003 |
| Investment income designated for operations | 3,231,422 | 15,231,850 | - | 18,463,272 | 17,882,595 |
| Other | 2,643,038 | - | - | 2,643,038 | 2,609,584 |
| Net assets released from restrictions | 15,053,098 | (15,053,098) | - | - | - |
| Total operating revenues | 109,523,247 | 178,752 | - | 109,701,999 | 105,964,334 |
| Operating Expenditures: | | | | | |
| Instruction | 37,045,051 | - | - | 37,045,051 | 36,213,757 |
| Research | 2,719,528 | - | - | 2,719,528 | 2,449,250 |
| Public service | 4,046,869 | - | - | 4,046,869 | 4,273,356 |
| Academic support | 9,572,838 | - | - | 9,572,838 | 9,780,586 |
| Student services | 12,797,837 | - | - | 12,797,837 | 12,531,625 |
| Institutional support: | | | | | |
| General | 9,103,394 | - | - | 9,103,394 | 8,437,675 |
| Advancement | 6,507,501 | - | - | 6,507,501 | 6,854,611 |
| Auxiliary services, student and other | 20,360,860 | - | - | 20,360,860 | 20,268,565 |
| Total operating expenditures | 102,153,878 | - | - | 102,153,878 | 100,809,425 |
| Change in net assets from operating activities | 7,369,369 | 178,752 | - | 7,548,121 | 5,154,909 |
| Other changes in net assets: | | | | | |
| Net assets released for capital expenditures | 4,501,761 | (4,501,761) | - | - | - |
| Annuity funds released | 2,949,279 | (2,949,279) | - | - | - |
| Loss on bond defeasance | (4,757,280) | - | - | (4,757,280) | - |
| Private gifts, grants and contracts non-operating | 5,804,629 | 1,598,020 | 2,899,126 | 10,301,775 | 9,120,572 |
| Other | - | - | - | - | 45,900 |
| Present value adjustment for annuities | - | 268,431 | (845,199) | (576,768) | (245,076) |
| Change in fair value of assets held in trust by others | - | 615,063 | 72,053 | 687,116 | (10,453) |
| Investment income (loss), net | 4,263,188 | 16,682,528 | 1,964,983 | 22,910,699 | (19,677,769) |
| Change in underwater funds | 1,049,159 | (1,049,159) | - | - | - |
| Redesignation of net assets | (356,444) | (56,540) | 412,984 | - | - |
| Total other changes in net assets | 13,454,292 | 10,607,303 | 4,503,947 | 28,565,542 | (10,766,826) |
| Changes in net assets | 20,823,661 | 10,786,055 | 4,503,947 | 36,113,663 | (5,611,917) |
| Net assets, beginning of year | 132,965,895 | 181,485,186 | 148,024,146 | 462,475,227 | 468,087,144 |
| Net assets, end of year | \$ 153,789,556 | \$ 192,271,241 | \$ 152,528,093 | \$ 498,588,890 | \$ 462,475,227 |

OCCIDENTAL COLLEGE
STATEMENTS OF CASH FLOWS
JUNE 30, 2014 AND 2013

| | 2014 | 2013 |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Changes in net assets | \$ 63,182,539 | \$ 36,113,663 |
| Adjustments to reconcile changes in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 7,711,443 | 7,157,310 |
| Net unrealized and realized gains on investments | (63,077,183) | (39,170,573) |
| Contributions restricted for long-term investments | (5,892,267) | (2,899,126) |
| Contributions for capital expenditures | (2,333,869) | (7,402,649) |
| Student notes receivable | 67,672 | (73,179) |
| Asset retirement obligations | (166,004) | (199,836) |
| Change in assets and liabilities: | | |
| Student accounts receivable, net | 18,543 | 140,568 |
| Contracts and grants receivable | (262,393) | 48,512 |
| Contributions receivable, net | 1,633,253 | (357,691) |
| Inventories | (6,932) | 24,059 |
| Other assets | 227,941 | 58,506 |
| Accounts payable and accrued expenses | (3,658,892) | (1,486,627) |
| Student deposits and deferred revenue | (784,376) | 89,556 |
| Net cash used in operating activities | <u>(3,340,525)</u> | <u>(7,957,507)</u> |
| Cash flows from investing activities: | | |
| Collection of trust deeds receivable | 43,852 | 664,451 |
| Change in assets whose use is limited | 575,221 | (10,010,591) |
| Disbursement of student notes receivables | (2,774,574) | (3,154,853) |
| Collection of student notes receivables | 2,589,379 | 2,445,067 |
| Purchases of investments | (339,003,742) | (292,767,238) |
| Proceeds from sales and maturities of investments | 342,998,724 | 299,238,533 |
| Purchases of property and equipment | <u>(6,229,027)</u> | <u>(10,564,763)</u> |
| Net cash used in investing activities | <u>(1,800,167)</u> | <u>(14,149,394)</u> |
| Cash flows from financing activities: | | |
| Contributions restricted for long-term investment | 2,418,455 | 3,598,663 |
| Contributions for capital expenditures | 2,333,869 | 7,402,649 |
| Change in assets held in trust by others | (863,116) | (819,115) |
| Bond issuance costs | - | 46,828 |
| Bond premium | - | 6,150,784 |
| Repayment of long-term debt | (2,260,000) | (46,175,000) |
| Issuance of new debt | - | 54,995,000 |
| Change in annuities payable | <u>932,206</u> | <u>(156,047)</u> |
| Net cash provided by financing activities | <u>2,561,414</u> | <u>25,043,762</u> |
| Net (decrease)/ increase in cash and cash equivalents | (2,579,278) | 2,936,861 |
| Cash and cash equivalents at beginning of year | <u>8,036,573</u> | <u>5,099,712</u> |
| Cash and cash equivalents at end of year | <u>\$ 5,457,295</u> | <u>\$ 8,036,573</u> |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | | |
|-------------------------------|---------------------|---------------------|
| Cash paid for interest | \$ 3,734,104 | \$ 4,016,103 |
| Gifts of stock and securities | <u>\$ -</u> | <u>\$ 3,063,409</u> |
| Unpaid fixed asset purchases | <u>\$ 1,120,433</u> | <u>\$ 3,257,989</u> |

OCCIDENTAL COLLEGE NOTES TO FINANCIAL STATEMENTS

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. The College is accredited by the Western Association of Schools and Colleges.

Note 2 – Summary of Significant Accounting Policies

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 accounting principles generally accepted in the United States of America (“GAAP”).

The College reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

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.

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

OCCIDENTAL COLLEGE

NOTES TO FINANCIAL STATEMENTS

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 and improvements (up to 20 years), buildings (up to 40 years), and furniture and equipment (up to 10 years). The College follows the policy of generally recording contributions of long-lived assets directly to unrestricted net assets. However, if the donor stipulates how long the assets must be used, the contributions are recorded as temporarily restricted support. Upon disposition of assets, the cost and related accumulated depreciation is removed with the resulting gain or loss recognized in unrestricted net assets.

Temporarily restricted net assets – Temporarily restricted net assets are those assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. Such assets include accumulated endowment investment gains, 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. 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.

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 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 revenue.

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

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

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Expenses are generally reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as “net assets released from restrictions” 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 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 value or net realizable value at the date of gift. 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.

The 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.

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 long-term 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 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 receivables are limited due to the large number of students from which amounts are due, with no one account being significant.

OCCIDENTAL COLLEGE

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Assets whose use is limited – Certain proceeds of the serial bonds 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 and 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 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 financial statements are fairly stated. The College believes the carrying amounts of these investments are a reasonable estimate of fair value. Because the limited partnership, mortgages, 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 market value and the cost basis of the investments. The net realized and unrealized gains and losses are reported in the statements of activities. Real estate is stated at cost.

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-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, 5.35%, of a twenty-one-quarter average unit market value to the units held as of September 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 California Educational Facilities Authority ("CEFA") Series 2005A and 2005B Bonds, the CEFA Series 2008 Bonds and the CEFA Series 2013A and 2013B Bonds (Note 9). These amounts are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Collections – Collections, such as rare books and works of art, which were acquired through purchases and contributions since the College’s inception, are not recognized as assets. 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.

Estates and trusts – 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. 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.

Actuarial liability – 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 3.99% and the 2000 Annuity 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 should be recognized.

There were \$166,004 and \$58,473 asset retirement costs for the years ending June 30, 2014 and 2013, respectively and \$2,463,345 and \$2,629,349 of conditional retirement asset obligations included in the balance sheets as of June 30, 2014 and 2013, respectively.

OCCIDENTAL COLLEGE

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

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

Use of estimates – The preparation of 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 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, 2014, it is possible that actual results could differ from those estimates.

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.

As required by GAAP, the College has identified and evaluated its significant tax positions for which the statute of limitations remain open and has determined that there is no material unrecognized benefit or liability to be recorded. The open tax years are the years ended June 30, 2011 through June 30, 2014 for federal tax purposes and the years ended June 30, 2010 through June 30, 2014 for California tax purposes. There are no uncertain tax positions for the years ended June 30, 2014 or June 30, 2013. There have been no related tax penalties or interest, which would be classified as a tax expense in the 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.

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Recent accounting pronouncements – In October 2012, the FASB issued Accounting Standards Update No. 2012-05 or ASU 2012-05, *Not for Profit Entities (“NFP”): Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires an NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. The ASU became effective for annual periods beginning after June 15, 2013. The guidance was adopted by the College during the year ended June 30, 2014 and does not have a material impact on its financial statements.

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 reclassifications have been made to the prior year amounts to conform to the current year presentation.

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 3 – Investments

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

| | <u>2014</u> | <u>2013</u> |
|-------------------------------------|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 46,293,568 | \$ 42,302,249 |
| U.S. equities | 94,273,682 | 82,193,952 |
| Global equities (developed) | 55,031,495 | 43,674,843 |
| Emerging markets equities | 42,074,440 | 32,957,168 |
| Domestic fixed income | 40,074,959 | 58,331,052 |
| Global fixed income | 9,635,040 | 6,126,931 |
| Absolute return | 75,281,401 | 55,659,023 |
| Marketable inflation hedging assets | 42,937,014 | 35,936,541 |
| Private equity and venture capital | 60,640,633 | 49,978,272 |
| Real estate | 1,158,071 | 1,158,071 |
| | <u>\$ 467,400,303</u> | <u>\$ 408,318,102</u> |

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

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| Dividends, interest and rents | \$ 7,178,691 | \$ 9,249,281 |
| Realized gains, net | 36,543,027 | 12,823,250 |
| Unrealized gains, net | <u>26,534,156</u> | <u>23,283,914</u> |
| | 70,255,874 | 45,356,445 |
| Less: Investment expense | (4,500,176) | (3,982,474) |
| Investment income designated for operations | <u>(18,200,024)</u> | <u>(18,463,272)</u> |
| Investment income, net of allocation to operations and investment expense | <u>\$ 47,555,674</u> | <u>\$ 22,910,699</u> |

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 3 – Investments (continued)

Investment income was classified as follows for the year ended June 30:

| | June 30, 2014 | | | Total |
|-------------------------------|----------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Dividends, interest and rents | \$ 1,469,985 | \$ 5,152,510 | \$ 556,196 | \$ 7,178,691 |
| Realized gains, net | 5,933,555 | 30,272,159 | 337,313 | 36,543,027 |
| Unrealized gains, net | 5,008,799 | 19,486,454 | 2,038,903 | 26,534,156 |
| Total | <u>\$ 12,412,339</u> | <u>\$ 54,911,123</u> | <u>\$ 2,932,412</u> | <u>\$ 70,255,874</u> |

| | June 30, 2013 | | | Total |
|-------------------------------|---------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Dividends, interest and rents | \$ 1,620,860 | \$ 6,786,986 | \$ 841,435 | \$ 9,249,281 |
| Realized gains (losses), net | 2,351,018 | 10,482,545 | (10,313) | 12,823,250 |
| Unrealized gains, net | 4,017,603 | 18,033,148 | 1,233,163 | 23,283,914 |
| Total | <u>\$ 7,989,481</u> | <u>\$ 35,302,679</u> | <u>\$ 2,064,285</u> | <u>\$ 45,356,445</u> |

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

| | 2014 | 2013 |
|----------------------------------|-------------------|-------------------|
| Unit-market value at end of year | \$ 446.26 | \$ 398.72 |
| Units owned: | | |
| Unrestricted: | | |
| Funds functioning as endowment | 167,501 | 159,118 |
| Total unrestricted | 167,501 | 159,118 |
| Permanently restricted: | | |
| Endowment funds | 739,587 | 732,566 |
| Total permanently restricted | 739,587 | 732,566 |
| Total units | <u>\$ 907,088</u> | <u>\$ 891,684</u> |

At June 30, 2014 and 2013, investments include approximately \$31,739,000 and \$28,029,000 respectively, in securities related to life income and annuity contracts.

OCCIDENTAL COLLEGE

NOTES TO FINANCIAL STATEMENTS

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.

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 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 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.

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 4 – Fair Value Measurements (continued)

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.

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

| | June 30, 2014 | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents (including assets whose use is limited) | \$ 57,782,338 | \$ - | \$ - | \$ 57,782,338 |
| US equities | 51,398,502 | 42,875,180 | - | 94,273,682 |
| Global equities (developed) | 11,516,054 | 30,529,391 | 12,986,050 | 55,031,495 |
| Emerging markets equities | 16,596,332 | 25,478,108 | - | 42,074,440 |
| Domestic fixed income | 29,426,220 | 10,648,739 | - | 40,074,959 |
| Global fixed income | - | 9,635,040 | - | 9,635,040 |
| Absolute return | - | 9,664,223 | 65,617,178 | 75,281,401 |
| Marketable inflation hedging assets | 41,907,697 | - | 1,029,317 | 42,937,014 |
| Private equity and venture capital | - | - | 60,640,633 | 60,640,633 |
| Assets held in trust by others | - | - | 11,420,924 | 11,420,924 |
| Total | <u>\$ 208,627,143</u> | <u>\$ 128,830,681</u> | <u>\$ 151,694,102</u> | <u>\$ 489,151,926</u> |

| | June 30, 2013 | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents (including assets whose use is limited) | \$ 54,366,240 | \$ - | \$ - | \$ 54,366,240 |
| US equities | 43,743,331 | 38,450,621 | - | 82,193,952 |
| Global equities (developed) | 8,905,675 | 24,420,168 | 10,349,000 | 43,674,843 |
| Emerging markets equities | 11,425,950 | 21,531,218 | - | 32,957,168 |
| Domestic fixed income | 48,083,524 | 10,247,528 | - | 58,331,052 |
| Global fixed income | - | 6,126,931 | - | 6,126,931 |
| Absolute return | - | - | 55,659,023 | 55,659,023 |
| Marketable inflation hedging assets | 14,164,093 | - | 21,772,448 | 35,936,541 |
| Private equity and venture capital | - | - | 49,978,272 | 49,978,272 |
| Assets held in trust by others | - | - | 10,557,808 | 10,557,808 |
| Total | <u>\$ 180,688,813</u> | <u>\$ 100,776,466</u> | <u>\$ 148,316,551</u> | <u>\$ 429,781,830</u> |

OCCIDENTAL COLLEGE

NOTES TO FINANCIAL STATEMENTS

Note 4 – Fair Value Measurements (continued)

The following table summarizes the valuation of the College's Level 3 reconciliation by the ASC 820 standards for the years ended June 30:

| | June 30, 2014 | | | | | Total |
|------------------------|--------------------------------|----------------------|---|--|--------------------------------------|-----------------------|
| | Global equities (developed) | Absolute return | Marketable inflation hedging assets | Private equity and venture capital | Assets held in trust by others | |
| Beginning balance | \$ 10,349,000 | \$ 55,659,023 | \$ 21,772,448 | \$ 49,978,272 | \$ 10,557,808 | \$ 148,316,551 |
| Purchases | - | 39,000,000 | - | 11,829,173 | - | 50,829,173 |
| Sales | (180,396) | (35,406,862) | (21,997,128) | (10,235,653) | - | (67,820,039) |
| Realized gain (loss) | 180,396 | 17,941,369 | 4,943,455 | 3,993,402 | - | 27,058,622 |
| Unrealized gain (loss) | 2,637,050 | (11,576,352) | (3,698,449) | 5,061,644 | 863,116 | (6,712,991) |
| Interest and dividends | - | - | 8,991 | 13,795 | - | 22,786 |
| Ending balance | <u>\$ 12,986,050</u> | <u>\$ 65,617,178</u> | <u>\$ 1,029,317</u> | <u>\$ 60,640,633</u> | <u>\$ 11,420,924</u> | <u>\$ 151,694,102</u> |
| | June 30, 2013 | | | | | Total |
| | Global equities (developed) | Absolute return | Marketable inflation hedging assets | Private equity and venture capital | Assets held in trust by others | |
| Beginning balance | \$ - | \$ 57,972,207 | \$ 26,758,009 | \$ 51,159,465 | \$ 9,738,693 | \$ 145,628,374 |
| Purchases | 10,000,000 | - | - | 6,970,817 | - | 16,970,817 |
| Sales | - | (9,853,303) | (4,649,697) | (9,298,815) | - | (23,801,815) |
| Realized gain (loss) | - | 339,095 | 3,041,260 | 2,071,338 | - | 5,451,693 |
| Unrealized gain (loss) | 349,000 | 7,201,024 | (3,618,312) | (929,598) | 819,115 | 3,821,229 |
| Interest and dividends | - | - | 241,188 | 5,065 | - | 246,253 |
| Ending balance | <u>\$ 10,349,000</u> | <u>\$ 55,659,023</u> | <u>\$ 21,772,448</u> | <u>\$ 49,978,272</u> | <u>\$ 10,557,808</u> | <u>\$ 148,316,551</u> |

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 4 – Fair Value Measurements (continued)

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, 2014 | Strategy | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|-------------------------------------|-----------------------------|--|-------------------------|----------------------------------|-----------------------------|
| Commingled funds | \$ 141,816,731 | 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 daily to quarterly | 7 - 90 days notice |
| Absolute return | 65,617,178 | 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 quarterly to annually | 15 - 95 days notice |
| Marketable inflation hedging assets | 1,029,317 | Investments in natural resource equities, commodities, and TIPS 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. | - | N/A * | N/A * |
| Private equity | 47,034,456 | Investments in privately held energy and or mining companies 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. | 30,661,548 | N/A * | N/A * |
| Venture capital | 13,606,177 | Investments in privately held start up and or fast growing companies expected to generate returns above traditional equity markets. | 2,670,000 | N/A * | N/A * |
| Totals | <u>\$ 269,103,859</u> | | <u>\$ 33,331,548</u> | | |

Note 5 – Trust Deeds Receivable

The College held notes receivable from faculty members and administrators totaling approximately \$455,000 and \$491,000 at June 30, 2014 and 2013, respectively. These notes are included in the trust deeds receivable balance on the balance sheets 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. The interest rate is 5.0% with maturities up to 25 years. As of June 30, 2014 and 2013, no amounts were past due and no amounts have been written off. All semi-monthly payments are made through payroll deductions. Management has determined no allowance on the trust deeds receivable balance is necessary as of June 30, 2014 and 2013, based on prior collection experience and current economic factors.

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 6 – 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 risk adjusted rate. The risk adjusted rates range from 0.19% and 3.48% for the years ended June 30, 2014 and 2013. 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:

| | <u>2014</u> | <u>2013</u> |
|-------------------------------------|----------------------|---------------------|
| Less than one year | \$ 2,413,545 | \$ 3,215,117 |
| Between one year and five years | 7,771,340 | 5,076,835 |
| Later than five years | <u>1,020,000</u> | <u>1,000,000</u> |
| | 11,204,885 | 9,291,952 |
| Less: Discount | (542,423) | (526,975) |
| Allowance for uncollectible amounts | <u>(319,874)</u> | <u>(262,949)</u> |
| Contributions receivable, net | <u>\$ 10,342,588</u> | <u>\$ 8,502,028</u> |

Contributions receivable at June 30, 2014 have the following restrictions:

| | |
|---|----------------------|
| Endowment for programs, activities and scholarships | \$ 6,860,488 |
| Education and general | 840,440 |
| Building construction | <u>3,503,957</u> |
| Total contributions receivable, gross | <u>\$ 11,204,885</u> |

Unconditional promises to give include amounts from members of the College's Board of Trustees of \$2,555,000 and \$4,260,000 as of June 30, 2014 and 2013, respectively.

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 7 – 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, 2014 and 2013, student loans represented 3.3% and 3.6% of total assets, respectively.

At June 30, student loans consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------------|----------------------|----------------------|
| Federal government programs | \$ 5,285,166 | \$ 5,446,244 |
| Institutional programs | <u>20,566,520</u> | <u>20,345,345</u> |
| | <u>25,851,686</u> | <u>25,791,589</u> |
| Less allowance for doubtful accounts: | | |
| Beginning of year | (3,094,604) | (3,167,784) |
| (Increases)/decreases | 31,481 | 73,179 |
| Write-offs | <u>25,945</u> | <u>1</u> |
| End of year | <u>(3,037,178)</u> | <u>(3,094,604)</u> |
| Student loans receivable, net | <u>\$ 22,814,508</u> | <u>\$ 22,696,985</u> |

The College participates 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 \$4,167,567 at June 30, 2014 and 2013, respectively, are ultimately refundable to the government and are classified as liabilities in the balance sheets.

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, 2014 and 2013, the following amounts were past due under student loan programs:

| <u>June 30,</u> | <u>In default less</u> <u>than 240 days</u> | <u>In default</u> <u>between 240</u> <u>days and 2 years</u> | <u>In default more</u> <u>than 2 years</u> | <u>Total past due</u> |
|-----------------|--|--|---|-----------------------|
| 2014 | \$ 1,037,179 | \$ 402,806 | \$ 1,331,579 | \$ 2,771,564 |
| 2013 | \$ 1,187,051 | \$ 362,732 | \$ 1,234,960 | \$ 2,784,743 |

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.

OCcidental College

NOTES TO FINANCIAL STATEMENTS

Note 8 - Property and Equipment

Property and equipment consists of the following at June 30:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|-----------------------|-----------------------|
| Land and improvements | \$ 7,729,597 | \$ 7,147,428 |
| Buildings | 223,690,533 | 208,819,379 |
| Furniture and equipment | 19,611,024 | 19,338,618 |
| Construction-in-progress | <u>3,169,263</u> | <u>13,055,247</u> |
| | 254,200,417 | 248,360,672 |
| Less: Accumulated depreciation | <u>(92,007,479)</u> | <u>(85,603,374)</u> |
| Property and equipment, net | <u>\$ 162,192,938</u> | <u>\$ 162,757,298</u> |

Depreciation expense for the years ended June 30, 2014 and 2013 was \$7,913,819 and \$7,181,363, respectively.

Note 9 - Debt

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 .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 CEFA Series 2005A Bonds, as well as to provide funds for certain capital projects. The amount recorded as loss due to the defeasance was \$4,757,280.

The Series 2013A and 2013B 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.

In March 2008, the College issued \$20,000,000 in bonds through the CEFA (Series 2008 Bonds). 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, board fees, and other fees or charges arising out of general College operations.

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 9 – Debt (continued)

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

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

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

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

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

Bonds payable at June 30, 2014 are summarized as follows:

| | <u>Authorized and Issued</u> | <u>Remaining Interest Rates</u> | <u>Remaining Bonds Outstanding</u> |
|---|----------------------------------|-------------------------------------|--|
| California Educational Facilities Authority ("CEFA") Revenue Bonds | | | |
| Series 2005A & 2005B | \$ 70,335,000 | 4.0% to 5.0% | \$ 16,895,000 |
| Series 2008 | 20,000,000 | 4.0% to 5.3% | 18,575,000 |
| Series 2013A & 2013B | <u>54,995,000</u> | 1.5% to 5.0% | <u>54,540,000</u> |
| Total | <u>\$ 145,330,000</u> | | <u>\$ 90,010,000</u> |

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 9 – Debt (continued)

Bonds payable at June 30, 2013 are summarized as follows:

| | <u>Authorized and Issued</u> | <u>Remaining Interest Rates</u> | <u>Remaining Bonds Outstanding</u> |
|---|----------------------------------|-------------------------------------|--|
| California Educational Facilities Authority ("CEFA") Revenue Bonds | | | |
| Series 2005A & 2005B | \$ 70,335,000 | 4.0% to 5.0% | \$ 18,325,000 |
| Series 2008 | 20,000,000 | 4.0% to 5.3% | 18,950,000 |
| Series 2013A & 2013B | <u>54,995,000</u> | .4% to 5.0% | <u>54,995,000</u> |
| Total | <u>\$ 145,330,000</u> | | <u>\$ 92,270,000</u> |

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

| <u>Years Ending June 30,</u> | <u>Series 2005A & 2005B CEFA Bonds</u> | <u>Series 2008 CEFA Bonds</u> | <u>Series 2013A & 2013B CEFA Bonds</u> | <u>Total</u> |
|------------------------------|--|-----------------------------------|--|----------------------|
| 2015 | \$ 1,485,000 | \$ 395,000 | \$ 125,000 | \$ 2,005,000 |
| 2016 | 1,555,000 | 410,000 | 310,000 | 2,275,000 |
| 2017 | 1,625,000 | 425,000 | 315,000 | 2,365,000 |
| 2018 | 1,685,000 | 445,000 | 330,000 | 2,460,000 |
| 2019 | 1,610,000 | 465,000 | 485,000 | 2,560,000 |
| 2020 and thereafter | <u>8,935,000</u> | <u>16,435,000</u> | <u>52,975,000</u> | <u>78,345,000</u> |
| Total | <u>\$ 16,895,000</u> | <u>\$ 18,575,000</u> | <u>\$ 54,540,000</u> | <u>\$ 90,010,000</u> |

The estimated fair value of the College's bonds payable was approximately \$96,969,306 and \$97,108,777 at June 30, 2014 and 2013, 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 – The College has a \$5,000,000 line of credit outstanding issued to the College on February 1, 2013. The line of credit will expire on February 1, 2016. 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 year ended June 30, 2014.

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 10 – Net Assets

Net assets consist of the following at June 30, 2014 and 2013:

| | 2014 | 2013 |
|---|----------------|----------------|
| Unrestricted | | |
| Designated - educational and general | \$ 14,752,041 | \$ 12,755,256 |
| Designated - functioning as endowment | 75,219,999 | 63,142,013 |
| Designated - student loan funds | 3,559,338 | 3,250,753 |
| Designated - renewal and replacement | 10,791,757 | 5,824,339 |
| Invested in property and equipment | 70,154,120 | 68,817,195 |
| Total unrestricted net assets | 174,477,255 | 153,789,556 |
| Temporarily restricted | | |
| Restricted for specific purposes | 1,111,409 | 1,032,225 |
| Accumulated endowment investment gains | 199,760,429 | 165,228,128 |
| Life income and annuity contracts | 9,188,738 | 8,031,521 |
| Property and equipment funds | 4,240,265 | 3,997,988 |
| Contributions receivable, net | 3,724,064 | 5,407,312 |
| Assets held in trust by others | 9,313,429 | 8,574,067 |
| Total temporarily restricted net assets | 227,338,334 | 192,271,241 |
| Permanently restricted | | |
| Endowment corpus | 131,115,926 | 128,396,925 |
| Life income and annuity contracts | 8,030,718 | 6,987,878 |
| Student loan funds | 12,083,177 | 12,064,833 |
| Contributions receivable, net | 6,618,524 | 3,094,716 |
| Assets held in trust by others | 2,107,495 | 1,983,741 |
| Total permanently restricted net assets | 159,955,840 | 152,528,093 |
| Total net assets | \$ 561,771,429 | \$ 498,588,890 |

OCCIDENTAL COLLEGE

NOTES TO FINANCIAL STATEMENTS

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, | |
|----------------------------|----------------------|----------------------|
| | 2014 | 2013 |
| Operating activities | \$ 14,944,494 | \$ 15,053,098 |
| Capital expenditures | 2,445,572 | 4,501,761 |
| Annuity funds | - | 2,949,279 |
| Change in underwater funds | 469,332 | 1,049,159 |
| | <u>\$ 17,859,398</u> | <u>\$ 23,553,297</u> |

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, 2014 and 2013 were approximately \$3,952,000 and \$3,820,000, respectively, which are included as expenditures in the statements of activities.

Note 12 – Fundraising Expenses

During the years ended June 30, 2014 and 2013, the College incurred fundraising expenses of approximately \$4,467,000 and \$4,707,000, respectively, exclusive of expenses for Alumni Relations and Public Relations.

Note 13 – Related Parties

As discussed in Note 6, some members of the Board of Trustees contributed to the College in the form of gifts and pledges, during the year ended June 30, 2014 and 2013. 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.

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 13 – Related Parties (continued)

One of our Trustees also served as a Director of one of the College's health care providers during the year ended June 30, 2013. Amounts paid to this vendor totaled to approximately \$3,135,000 for the year ended June 30, 2013.

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 financial position.

In September 2013, the College entered into confidential settlement agreements with some individuals related to their complaints against the College for the alleged mishandling of their Title IX Complaints. The settlement amount, net of insurance proceeds, is accrued for and charged in institutional support in the statement of activities for the year ended June 30, 2013 and paid during the year ended June 30, 2014. There is no remaining outstanding amount at June 30, 2014.

In May 2013, the Department of Education, Office for Civil Rights notified the College that it was investigating the College's Title IX practices. In September 2013, the Department of Education, Office of Federal Student Aid notified the College that it was conducting a program review to evaluate the College's compliance with the Jeanne Clery Disclosure of Campus Security Police and Campus Crime Statistics Act. As of the date of the financial statements, the outcome of these investigations cannot be determined. Management does not believe the resolution of these investigations, however, will result in a material adjustment to the financial statements.

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

OCCIDENTAL COLLEGE

NOTES TO FINANCIAL STATEMENTS

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 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

OCCIDENTAL COLLEGE
NOTES TO FINANCIAL STATEMENTS

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, 2014 | | | Total |
|---|----------------------|------------------------|------------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Net endowment assets, beginning of year | \$ 63,142,013 | \$ 165,228,128 | \$ 128,396,925 | \$ 356,767,066 |
| Investment return: | | | | |
| Investment income, net | 1,100,747 | 4,939,953 | 34,568 | 6,075,268 |
| Net appreciation | 10,030,280 | 45,013,963 | - | 55,044,243 |
| Total investment return | 11,131,027 | 49,953,916 | 34,568 | 61,119,511 |
| New gifts | 3,647,742 | - | 875,823 | 4,523,565 |
| Matured life income and annuity contracts | - | - | 113,024 | 113,024 |
| Pledge payments | - | - | 1,465,204 | 1,465,204 |
| Other changes, including redesignations | 77,626 | - | 230,382 | 308,008 |
| Appropriation for expenditures | (3,247,741) | (14,952,283) | - | (18,200,024) |
| Change in underwater endowments | 469,332 | (469,332) | - | - |
| Net endowment assets, end of year | <u>\$ 75,219,999</u> | <u>\$ 199,760,429</u> | <u>\$ 131,115,926</u> | <u>\$ 406,096,354</u> |
| | | | | |
| | June 30, 2013 | | | Total |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Net endowment assets, beginning of year | \$ 56,242,008 | \$ 149,987,980 | \$ 124,489,898 | \$ 330,719,886 |
| Investment return: | | | | |
| Investment income, net | 2,950,581 | 13,802,594 | - | 16,753,175 |
| Net appreciation | 3,787,698 | 17,718,563 | - | 21,506,261 |
| Total investment return | 6,738,279 | 31,521,157 | - | 38,259,436 |
| New gifts | 82,502 | - | 2,013,410 | 2,095,912 |
| Matured life income and annuity contracts | - | - | 790,371 | 790,371 |
| Pledge payments | - | - | 1,032,529 | 1,032,529 |
| Other changes, including redesignations | 2,261,487 | - | 70,717 | 2,332,204 |
| Appropriation for expenditures | (3,231,422) | (15,231,850) | - | (18,463,272) |
| Change in underwater endowments | 1,049,159 | (1,049,159) | - | - |
| Net endowment assets, end of year | <u>\$ 63,142,013</u> | <u>\$ 165,228,128</u> | <u>\$ 128,396,925</u> | <u>\$ 356,767,066</u> |

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts. Deficits of this nature were reported as an adjustment to unrestricted net assets of \$0 and \$(469,000) as of June 30, 2014 and 2013, respectively.

OCCIDENTAL COLLEGE

NOTES TO FINANCIAL STATEMENTS

Note 16 – Subsequent Events

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

The College evaluated its June 30, 2014 financial statements for subsequent events through November 7, 2014, the date the financial statements were available to be issued. Other than the matters discussed in Note 14, the College is not aware of any subsequent events which would require recording or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

OCCIDENTAL COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Pass-Through Award Number</u> | <u>CFDA No.</u> | <u>Expenditures</u> |
|--|--------------------------------------|-----------------|---------------------|
| Student Financial Assistance Cluster | | | |
| Direct Funding | | | |
| Department of Education | | | |
| Federal Supplemental Educational Opportunity Grant | | 84.007 | \$ 188,648 |
| Federal Work Study Program | | 84.033 | 173,100 |
| Federal Perkins Loan | | 84.038 | 611,880 |
| Federal Pell Grant | | 84.063 | 1,941,440 |
| Federal Direct Student Loans | | 84.268 | <u>9,617,101</u> |
| Total Student Financial Assistance Cluster | | | <u>12,532,169</u> |
| TRIO Cluster | | | |
| Direct Funding | | | |
| Department of Education | | | |
| Upward Bound (TRIO Cluster) | | 84.047 | <u>471,206</u> |
| Total TRIO Cluster | | | <u>471,206</u> |
| Subtotal Department of Education | | | <u>13,003,375</u> |
| Research and Development Cluster | | | |
| Direct Funding | | | |
| National Science Foundation | | | |
| Surface and Analytical Chemistry to Elucidate Fundamental Biofilm Properties and Mechanisms of Biofilm Control | | 47.049 | 35,325 |
| RUI: Quantum/Rare Earth | | 47.049 | 54,029 |
| RUI: Studies Particle Transport Non-Neutral Plasma | | 47.049 | 2,280 |
| Collaborative Research: Drift-III Engineering for a Large Directional Dark Matter Detector | | 47.049 | <u>328,228</u> |
| | | | <u>419,862</u> |
| RUI: Rapid geomagnetic change Lava Flow | | 47.050 | 6,963 |
| RUI: Collaborative Research: Evaluating the Influence of Crustal Deformation on Episodic Magmatism: Southern Coast Mountains Batholith, British Columbia | | 47.050 | <u>24,185</u> |
| | | | <u>31,148</u> |
| EAGER: RUI: The Genomic Architecture of Speciation in an Avian Hybrid Zone | | 47.074 | 24,387 |
| RUI: Genomic Approaches to Comparative Phylogeography in a Biodiversity Hotspot | | 47.074 | 95,901 |
| RUI: Regulation of Water Uptake in Tank Bromeliads | | 47.074 | <u>20,889</u> |
| | | | <u>141,177</u> |
| Investigating Causes and Consequences, Conceptual | | 47.076 | <u>57,675</u> |
| Thermochronologic Modeling-Mesozoic | | 47.078 | <u>467</u> |
| ARRA - US-Costa Rica Tropical Ecology Mentorship Program | ARRA | 47.082 | 15,512 |
| ARRA - Topological Symmetries and Intrinsic Properties of Graphs embedded in 3-space | ARRA | 47.082 | <u>2,031</u> |
| | | | <u>17,543</u> |
| Total National Science Foundation | | | <u>667,872</u> |
| Department of Energy | | | |
| Axial Trapping | | 81.049 | <u>43,681</u> |
| Total Department of Energy | | | <u>43,681</u> |
| Environmental Protection Agency | | | |
| Pilot Use-EJSM Cumulative Impacts Tool | | 66.517 | <u>28,698</u> |
| Total Environmental Protection Agency | | | <u>28,698</u> |
| National Oceanic and Atmospheric Administration | | | |
| Bunker Point Reef Restoration II | | 11.463 | <u>453,607</u> |
| Total National Oceanic and Atmospheric Administration | | | <u>453,607</u> |
| Total Research and Development (Direct Funding) | | | <u>1,193,858</u> |

**OCCIDENTAL COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014 (CONTINUED)**

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Pass-Through Award Number</u> | <u>CFDA No.</u> | <u>Expenditures</u> |
|---|--------------------------------------|-----------------|---------------------|
| Pass-Through Funding | | | |
| Department of the Interior | | | |
| Regents of the University of California - Santa Cruz - Biological Productivity of Fish Associated with Offshore Oil and Gas Structures on the Pacific OCS | KK1249 | 15.423 | 7,698 |
| Total Department of the Interior | | | 7,698 |
| U.S. Department of Housing and Urban Development | | | |
| Community Redevelopment Agency of City of Los Angeles - CRA/LA: NELA Collaborative Connecting Investments in Place with Investments in People | 503666 | 14.704 | 13,370 |
| Subtotal U.S. Department of Housing and Urban Development | | | 13,370 |
| U.S. Department of Transportation | | | |
| Los Angeles County Metropolitan Transportation Authority - Transit Climate Change Adaptation Program Metric Development | EN080 | 20.514 | 74,371 |
| Total U.S. Department of Transportation | | | 74,371 |
| National Aeronautics and Space Administration | | | |
| Regents of University of California - Santa Cruz - Characterization of Rocky Kelp Forest and Deep Rocky and Sandy ecosystems at San Clemente Island | S0183949 | 12.300 | 74,667 |
| Total National Aeronautics and Space Administration | | | 74,667 |
| Total Research and Development (Pass-Through Funding) | | | 170,106 |
| Total Research and Development Cluster | | | 1,363,964 |
| Other Awards | | | |
| Direct Funding | | | |
| National Security Agency | | | |
| Putting the Arabic Standards Front and Center | | 12.900 | 24,325 |
| Putting the Arabic Standards Front and Center | | 12.900 | 40,514 |
| Putting the Arabic Standards Front and Center | | 12.900 | 55,492 |
| Putting the Arabic Language Standards Front and Center | | 12.900 | 697 |
| | | | 121,028 |
| Total National Security Agency | | | 121,028 |
| Department of Justice | | | |
| Oxy Cares-services centered on the needs of victims of sexual assault, domestic violence, dating violence and stalking | | 16.524 | 18,433 |
| Total Department of Justice | | | 18,433 |
| Total Other Programs - Direct Funding | | | 139,461 |
| Pass-Through Funding | | | |
| Department of Education | | | |
| Los Angeles Unified School District - GEAR UP Eagle Rock Title I Tutoring | 0700493 | 84.334 | 75,554 |
| Los Angeles Unified School District - GEAR UP Los Angeles | 1200249 | 84.334 | 524,994 |
| | | | 600,548 |
| Regents of University of California - No Child Left Behind Cycle 9 | NCLBCWLPNCLB10 | 84.367 | 76,109 |
| Subtotal Department of Education | | | 676,657 |

**OCCIDENTAL COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Pass-Through Award Number</u> | <u>CFDA No.</u> | <u>Expenditures</u> |
|--|--------------------------------------|-----------------|----------------------|
| Department of Agriculture | | | |
| Food Distribution Cluster | | | |
| State of California - Summer - Food Service Program for Children | N/A | 10.559 | 15,663 |
| Total Food Distribution Cluster | | | <u>15,663</u> |
| Child Nutrition Cluster: | | | |
| Public Health Institute - Farm to Fork Nutrition Education | 1018567 | 10.561 | 8,908 |
| Public Health Institute - Farm to Fork Children and Youth Project | 9/18/91 | 10.561 | 33,652 |
| Total Child Nutrition Cluster | | | <u>42,560</u> |
| Lynwood Unified School District - Farm to School Assessment | CN-F2S-PLAN-13-CA-01 | 10.575 | 1,892 |
| Total Department of Agriculture | | | <u>60,115</u> |
| US Department of Housing and Urban Development | | | |
| Community Development Block Cluster | | | |
| City of Los Angeles - Community Development Department - Los Angeles Food Hub Study: Northeast Los Angeles River Collaborative | C-121973 | 14.218 | 53,328 |
| Total Community Development Block Cluster | | | <u>53,328</u> |
| Subtotal US Department of Housing and Urban Development | | | <u>53,328</u> |
| Total Other Programs - Pass-Through Funding | | | <u>790,100</u> |
| Total Other Programs | | | <u>929,561</u> |
| Total Federal Awards | | | <u>\$ 15,296,900</u> |

OCCIDENTAL COLLEGE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Occidental College (the “College”) under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (“OMB”) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the balance sheet, activities or cash flows of the College.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Education Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 – Federal Student Loan Programs

The federal student loan programs listed subsequently are administered directly by the College and balances and transactions relating to these programs are included in the College's financial statements. Loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2014 consists of:

| CFDA number | Program name | Outstanding balance at June 30, 2014 |
|----------------|------------------------------|--|
| 84.038 | Federal perkins loan program | \$ 5,285,336 |

Note 4 – Indirect Costs

For the year ended June 30, 2014, the College has an approved predetermined indirect cost rate which is effective from July 1, 2010 through June 30, 2014. The base rates for on-campus research for the year ended June 30, 2014 was 45.00% of salaries and benefits.

OCCIDENTAL COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 5 – Subrecipients

Of the federal expenditures presented in the Schedule, the College provided federal awards to subrecipients as follows:

| <u>CFDA Number</u> | <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Amount Provided to Subrecipients</u> |
|------------------------|--|---|
| 47.049 | National Science Foundation - Surface and Analytical Chemistry to Elucidate Fundamental Biofilm Properties and Mechanisms of Biofilm Control | \$ 20,866 |
| 14.218 | U.S. Department of Housing and Urban Development - City of Los Angeles - Food Hub Study: Northeast Los Angeles River Collaborative | <u>30,000</u> |
| | | <u>\$ 50,866</u> |

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Trustees
Occidental College

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Occidental College (the "College"), which comprises the balance sheet as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

MOSS ADAMS_{LLP}**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Los Angeles, California
November 7, 2014

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
AS REQUIRED BY OMB CIRCULAR A-133**

The Board of Trustees
Occidental College

Report on Compliance for the Major Federal Program

We have audited Occidental College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the College's major federal program for the year ended June 30, 2014. The College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the College's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the College's compliance.

MOSS ADAMS_{LLP}

Opinion on the Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on the major federal program is not modified with respect to these matters.

The College's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

MOSS ADAMS_{LLP}

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Los Angeles, California
November 7, 2014

**OCCIDENTAL COLLEGE
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of Major Programs

| <i>CFDA Numbers</i> | <i>Name of Federal Program or Cluster</i> | <i>Type of Auditor’s Report Issued</i> |
|---------------------|---|--|
| Various | Student financial assistance cluster | Unmodified |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

Section II – Financial Statement Findings

None reported

**OCCIDENTAL COLLEGE
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Section III – Federal Award Findings and Questioned Costs

FINDING 2014-001 – Special Tests and Provisions – Verification: Instance of Noncompliance

| <i>CFDA Number</i> | <i>Federal Agency/Pass-through Entity – Program Name</i> | <i>Award Number</i> | <i>Award Year</i> | <i>Questioned Costs</i> |
|--------------------|--|---------------------|--------------------------|-------------------------|
| Various | U.S Department of Education – Student financial assistance cluster | Various | Year Ended June 30, 2014 | \$0 |

Criteria: When a student completes a Free Application for Federal Student Aid (FASFA), it may be selected for review by the Federal Government; in which case, the College is required to verify that certain information reported on the FASFA is accurate and can be supported by appropriate documentation. To ensure that students are made aware of what is expected during this process, the College is required to establish written policies and procedures for verifying information contained in a student aid application. In accordance with 34 Code of Federal Regulations (CFR) 668.53 “these policies and procedures must include (1) The time period within which an applicant shall provide the documentation; (2) The consequences of an applicant’s failure to provide required documentation within the specified time period; (3) The method by which the institution notifies an applicant of the results of verification if, as a result of verification, the applicant’s [Expected Family Contribution] EFC changes and results in a change in the applicant’s award or loan; (4) The procedures the institution requires an applicant to follow to correct application information determined to be in error; and (5) The procedures for making referrals under § 668.16. (b) The institution’s procedures must provide that it shall furnish, in a timely manner, to each applicant selected for verification a clear explanation of— (1) The documentation needed to satisfy the verification requirements; and (2) The applicant’s responsibilities with respect to the verification of application information, including the deadlines for completing any actions required under this subpart and the consequences of failing to complete any required action.”

Condition: For the fiscal year ended June 30, 2014, the College published an outline on its website describing specific documents that may be requested if the student was selected for verification; however, these procedures did not include specific guidance as required by the CFR such as (1) the method by which the College notifies an applicant of the result of its verification if the applicant’s EFC changes and thereby the amount of assistance the applicant may be eligible to receive; (2) the procedures the College requires an applicant to follow to correct the application in the event of an error; and (3) the procedures for making referrals under 34 CFR § 668.16. This information can be located within other forms and documents; however, the information is not summarized in one succinct policy available to students.

**OCCIDENTAL COLLEGE
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Context: We tested 17 students whose applications were selected for verification and we reviewed evidence that the College performed the verification. We also reviewed that the documentation received from the applicant by the College was acceptable under the guidelines of the policy.

Effect: Although a written policy was in place, the policy did not capture all of the required components of the federal regulation.

Cause: Management believed they had incorporated all elements of the federal regulation; however, upon further review it was determined that certain components were missing.

Recommendation: We recommend that the College amend its current verification policy to include this additional information so that applicants are aware of all potential implications if selected for verification.

Views of responsible officials and planned corrective actions: The College has written an updated Verification Policy that summarizes all required components to ensure compliance with CFR 668.53. This is published as part of its verification instructions in a printable format as well as summarized on a separate page on the Financial Aid website with specific links to required forms and the Department of Education website to provide additional information to students and their parents.