Occidental College

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

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

Board of Trustees
Occidental College

In our opinion, the accompanying balance sheets and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Occidental College (the "College") at June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

PricewaterhouseCoopers LLP

December 18, 2006

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

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total	2005 Total
Operating Revenues					
Tuition and fees	$ 56,058,197	$ –	$ –	$ 56,058,197	$ 54,808,970
Less: Financial assistance	(20,121,691)	–	–	(20,121,691)	(20,075,215)
Net tuition revenue	35,936,506			35,936,506	34,733,755
Private gifts, grants, and contracts	10,756,854	3,578,855	5,381,804	19,717,513	21,061,743
Federal and state grants and contracts	2,537,275	–	–	2,537,275	2,646,503
Auxiliary sales and services	13,694,189	–	–	13,694,189	13,295,930
Investment income designated for operations	13,101,322	–	–	13,101,322	12,765,225
Other	1,725,990	4,391	12,152	1,742,533	1,283,506
Total revenues	77,752,136	3,583,246	5,393,956	86,729,338	85,786,662
Operating Expenditures					
Educational and general expenditures					
Instruction	27,538,074	–	–	27,538,074	26,706,390
Research	2,042,791	–	–	2,042,791	2,022,283
Public service	4,641,497	–	–	4,641,497	2,890,251
Academic support	5,450,718	–	–	5,450,718	5,504,592
Student services	8,607,524	–	–	8,607,524	7,882,012
Institutional support	16,055,950	–	–	16,055,950	14,091,834
Auxiliary enterprises expenditures	12,452,998	–	–	12,452,998	12,056,069
Total expenditures	76,789,552	–	–	76,789,552	71,153,431
Operating income	962,584	3,583,246	5,393,956	9,939,786	14,633,231
Other Changes in Net Assets					
Net assets released for capital expenditures	1,482,606	(1,482,606)	–	–	–
Present value adjustment for annuities	(571,394)	636,200	(613,374)	(548,568)	(1,143,890)
Change in fair market value of assets held in trust by others	–	198,943	(46,207)	152,736	62,492
Realized and unrealized gains, net of allocation to operations and net of investment expense of $1,243,192 for the year ended June 30 2006	30,037,665	732,046	1,580,315	32,350,026	23,908,971
Decrease in student loan reserve	–	–	–	–	608,157
Redesignation of net assets	(174,646)	174,646	–	–	–
Total other changes in net assets	30,774,231	259,229	920,734	31,954,194	23,435,730
Cumulative effect of change in accounting principle	(2,711,835)	–	–	(2,711,835)	–
Changes in net assets	29,024,980	3,842,475	6,314,690	39,182,145	38,068,961
Net assets, beginning of year	257,964,506	16,349,732	113,080,029	387,394,267	349,325,306
Net assets, end of year	$ 286,989,486	$ 20,192,207	$ 119,394,719	$426,576,412	$ 387,394,267

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Tuition and fees	$ 54,808,970	$ –	$ –	$ 54,808,970
Less: Financial assistance	(20,075,215)	–	–	(20,075,215)
Net tuition revenue	34,733,755	–	–	34,733,755
Private gifts, grants, and contracts	10,662,986	5,787,504	4,611,253	21,061,743
Federal and state grants and contracts	2,646,503	–	–	2,646,503
Auxiliary sales and services	13,295,930	–	–	13,295,930
Investment income designated for operations	12,765,225	–	–	12,765,225
Other	1,283,506	–	–	1,283,506
Net assets released for operations	38,959	(38,959)	–	–
Total revenues	75,426,864	5,748,545	4,611,253	85,786,662
Operating Expenditures				
Educational and general expenditures				
Instruction	26,706,390	–	–	26,706,390
Research	2,022,283	–	–	2,022,283
Public service	2,890,251	–	–	2,890,251
Academic support	5,504,592	–	–	5,504,592
Student services	7,882,012	–	–	7,882,012
Institutional support	14,091,834	–	–	14,091,834
Auxiliary enterprises expenditures	12,056,069	–	–	12,056,069
Total expenditures	71,153,431	–	–	71,153,431
Operating income	4,273,433	5,748,545	4,611,253	14,633,231
Other Changes in Net Assets				
Net assets released for capital expenditures	1,101,979	(1,101,979)	–	–
Annuity funds released	207,649	(207,649)	–	–
Present value adjustment for annuities	(206,177)	(241,375)	(696,338)	(1,143,890)
Change in fair market value of assets held in trust by others	–	(79,519)	142,011	62,492
Realized and unrealized gains, net of allocation to operations and net of investment expense of $956,448 for the year ended June 30 2005	21,751,510	653,460	1,504,001	23,908,971
Decrease in student loan reserve	608,157	–	–	608,157
Redesignation	186,298	(186,298)	–	–
Total other changes in net assets	23,649,416	(1,163,360)	949,674	23,435,730
Changes in net assets	27,922,849	4,585,185	5,560,927	38,068,961
Net assets, beginning of year	230,041,657	11,764,547	107,519,102	349,325,306
Net assets, end of year	$ 257,964,506	$ 16,349,732	$ 113,080,029	$ 387,394,267

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

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

	2006	2005
Cash flows from operating activities		
Changes in net assets	$ 39,182,145	$ 38,068,961
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation and amortization	4,545,551	5,141,362
Gifts of stock and securities	(3,961,523)	(4,651,171)
Cumulative effect of change in accounting principle	2,711,835	–
Net unrealized and realized gains on investments	(33,889,775)	(30,860,629)
Contributions restricted for long-term investment	(5,381,804)	(4,611,253)
Changes in assets and liabilities		
Student accounts receivable, net	155,834	(141,758)
Contracts and grants receivable	135,508	335,020
Student notes receivable, net	63,894	(1,510,732)
Contributions receivable, net	157,921	(1,047,166)
Inventories	(21,727)	3,543
Other assets	(1,765,842)	581,530
Accounts payable and accrued expenses	(495,222)	1,005,428
Student deposits and deferred revenue	(664,075)	(727,073)
Net cash provided by operating activities	772,720	1,586,062
Cash flows from investing activities		
Decrease in trust deeds receivable	230,215	380,089
Change in assets whose use is limited	37,239	(39,469,244)
Purchases of investments	(56,271,177)	(50,453,188)
Sales of investments	52,801,308	53,863,458
Purchases of property and equipment	(9,180,220)	(9,642,665)
Net cash used in investing activities	(12,382,635)	(45,321,550)
Cash flows from financing activities		
Contributions restricted for long-term investment	3,601,138	4,611,253
Deposits with bank trustees	56,278	2,849,640
Change in assets held in trust by others	67,264	(821,540)
Repayment of notes payable	(282,432)	(336,881)
Bond issuance costs	–	(1,406,300)
Bond premium	–	2,190,515
Repayment of long-term debt	(57,000)	(32,102,000)
Issuance of new debt	–	70,335,000
Increase in government loans payable	–	115,468
Increase in annuities payable	1,054,274	2,714,879
Net cash provided by financing activities	4,439,522	48,150,034
Net (decrease) increase in cash and cash equivalents	(7,170,393)	4,414,546
Cash and cash equivalents, beginning of year	8,913,115	4,498,569
Cash and cash equivalents, end of year	$ 1,742,722	$ 8,913,115
Supplemental cash flow information		
Cash paid for interest	$ 2,957,803	$ 1,806,486
Gifts of stock and securities	$ 3,961,523	$ 4,651,171

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

1. Operations and Summary of Significant Accounting Policies

Nature of Operations

Occidental College (the "College") is an independent, coeducational college of liberal arts and sciences, founded in 1887. Occidental College seeks to provide an education of high quality in the best tradition of the liberal arts, emphasizing thorough competence in a chosen field of study together with a broad understanding of our historical and cultural heritage and the relationships among fields of knowledge. The College is accredited by the Western Association of Schools and Colleges.

Basis of Accounting and Reporting

The accompanying financial statements of the College, a not-for-profit educational institution, have been prepared on the accrual basis of accounting in accordance with standards generally accepted in the United States of America and with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Not-for-Profit Organizations*.

Revenues, gains, expenses and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified and reported as follows:

Unrestricted Net Assets

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

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

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

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

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

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

Invested in property and equipment – includes property and equipment stated at cost or fair market value at the date of gift, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives for land improvements (20 years), buildings and improvements (40 years), and equipment and library books (5-10 years). The College follows the policy of generally recording contributions of long-lived assets directly to unrestricted net assets. However, if the donor stipulates how long the assets must be used, the contributions are recorded as temporarily restricted support. Upon disposition of assets, the cost and related accumulated depreciation is removed with the resulting gain or loss recognized in unrestricted net assets.

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

Temporarily Restricted Net Assets
Temporarily restricted net assets are those assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. Such assets include certain charitable remainder unitrusts, pooled income funds, gift annuities, and certain pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently Restricted Net Assets
Permanently restricted net assets are those assets subject to donor-imposed stipulations that they be maintained in perpetuity by the College. Generally, the donors of these assets permit the College to use all or part of the investment return on these assets for unrestricted purposes. Such assets primarily include the College's permanent endowment, certain charitable remainder unitrusts, and loan funds established by outside donors.

Revenues and Expenses
Student tuition and fees are recorded as revenues in the period during which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenues.

Contributions are reported as increases in the appropriate category of net assets, except contributions that the donor restricts where the restrictions are met within the same fiscal year, as these contributions are included in unrestricted net assets. Contributions other than cash are recorded at their fair market value or net realizable value at the date of gift.

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

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

Expenses are generally reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are met in the period in which the assets are acquired or placed into service.

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

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

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

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

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

The College has cash balances that periodically exceed the Federal Deposit Insurance Corporation limit of $100,000 per depository bank.

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

Assets whose use is limited are recorded at fair value.

Investments
Investments are stated at fair market value. The fair value of investments is based on quoted prices from national security exchanges, except for limited partnerships, mortgages, venture capital and real estate, which are stated at the lower of cost or the fair value of which is based on information provided by external investment managers at the most recent valuation period date prior to 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 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. The net realized and unrealized gains and losses are reported in the Statements of Activities.

For purposes of determining estimated lower of cost or fair value, vacant land and developed real estate is valued based on the net realizable value. Realized and unrealized gains and losses on investments are the difference between the fair market value and the cost basis of the investments.

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.

Income on investments of permanently restricted net assets is recorded as revenue in the unrestricted net assets or as additions to temporarily or permanently restricted net assets if specified by the donor.

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

Total Return Policy

Unrestricted revenue is supplemented by the transfer of additional amounts from unrestricted net assets designated as endowment income to result in a total return from such investments equivalent to between 5% and 6% of the average market value (as defined) of the investments over a three-year period. Additional amounts may be transferred from unrestricted net assets designated – functioning as endowment to undesignated educational and general net assets at the discretion of the Board of Trustees.

Inventories

Inventories in the bookstore, campus dining, and stockroom are stated at the lower of cost or market. Cost has been determined using the average-cost method.

Bond Issuance Costs

Bond issuance costs represent insurance, issuance and underwriters' costs related to the CEFA Series 2005A and 2005B Bonds (see Note 7). These amounts are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

Collections

Collections, such as rare books and works of art, which were acquired through purchases and contributions since the College's inception, are not recognized as assets on the balance sheets. These collections are held solely for their potential educational value or historical significance. Management has determined that the cost to establish the current market value is deemed to exceed the benefit and therefore the collections were not assigned a value for the purpose of capitalization. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items have been restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset category.

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.

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 market 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 rates ranging from 3.8% to 11.2% and the 90CM Mortality Table.

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

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

Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with U.S. Government mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition, could not be made without incurring excessive costs.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax-Exempt Status
The College has been notified by federal and state regulatory authorities that it qualifies as a tax-exempt educational institution under current IRS and corresponding state provisions, respectively.

Fair Value of Financial Instruments
For those 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 allowing for doubtful accounts, which approximates fair value.

- Long-term debt – This fair value was estimated based upon the discounted amount of future cash outflows based on current rates available to the College for debt of the same remaining maturities.

Reclassifications
Certain reclassifications have been made in the College's 2005 Financial Statements to conform to the 2006 presentation. Such reclassifications include expenses reclassified from Auxiliary Enterprises Expenditures to various other programs as a result of management's review of cost classifications assigned by the College's accounting systems. As a result of this review Auxiliary Enterprises Expenditures decreased $3,196,120 Instruction Expenditures increased $1,087,347, Student Services Expenditures increased $456,960 and Institutional Support Expenditures increased $1,827,019 for fiscal 2005. Additionally, the change in Deposits with Bank Trustees was reclassified from operating activities to financing activities to conform to current year presentation.

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

2. Investments

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

	June 30, 2006		
	Cost Basis	**Market Value**	**Carrying Value**
Cash and cash equivalents	$ 26,375,091	$ 26,375,091	$ 26,375,091
Debt securities	60,475,329	59,182,341	59,182,341
Equities	150,435,238	191,999,995	191,999,995
Other equity investments	56,086,421	84,242,798	84,242,798
Venture capital	272,997	279,754	272,997
Real estate	3,274,447	3,274,447	3,274,447
	$ 296,919,523	$ 365,354,426	$ 365,347,669

	June 30, 2005		
	Cost Basis	**Market Value**	**Carrying Value**
Cash and cash equivalents	$ 21,234,171	$ 21,234,171	$ 21,234,171
Debt securities	59,381,911	61,482,321	61,482,321
Equities	147,771,069	177,879,088	177,879,088
Other equity investments	39,580,000	56,710,019	56,710,019
Venture capital	305,790	306,552	305,790
Real estate	4,634,447	4,634,447	4,634,447
	$ 272,907,388	$ 322,246,598	$ 322,245,836

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

	2006	**2005**
Dividends, interest and rents	$ 11,024,099	$ 6,770,015
Unrealized gains, net	19,094,448	14,857,610
Realized gains, net	16,575,993	16,003,019
	46,694,540	37,630,644
Less: Investment expense	(1,243,192)	(956,448)
Investment income designated for operations	(13,101,322)	(12,765,225)
Realized and unrealized gains, net of allocation to operations and investment expense	$ 32,350,026	$ 23,908,971

2. Investments (Continued)

Where permitted by gift agreement and/or applicable government regulations, investments are pooled. Pooled investments and allocations of pooled investment income are accounted for on a unit-market value method. The following schedule summarizes the College's pooled investments for the years ended June 30, 2006 and 2005:

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

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

3. Trust Deeds Receivable

The College held notes receivable from faculty members and administrators totaling approximately $2,749,000 and $2,961,000 at June 30, 2006 and 2005, respectively. These notes are included in the trust deeds receivable balance on the Balance Sheet and are recorded at cost. Such loans were issued under the College's housing assistance program, and are collateralized by first or second deeds of trust. Interest rates range from 5.0% to 6.61% with maturities up to 20 years. The College has $755,278 of non-interest-bearing loans included in this amount at June 30, 2006 and 2005.

4. Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and gift revenue in the appropriate net asset category. Contributions are recorded after discounting at the long-term AFR to the present value of future cash flows. The AFR ranged from 4.48% and 2.48% for the years ended June 30, 2006 and 2005. Amortization of the discount is included in gift revenue.

4. Contributions Receivable (Continued)

Contributions receivable are expected to be realized as follows:

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

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

Endowment for programs, activities and scholarships	$ 983,873
Building construction	325,500
Education and general	1,045,952
Total	$ 2,355,325

5. Property and Equipment

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

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

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

6. Note Payable

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

7. Bonds Payable

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

	Authorized and Issued	Remaining Interest Rates	Remaining Bonds Outstanding	Deposits with Bank Trustees
1979 HUD Dormitory Bonds Series D	$ 419,000	3.00%	$ 208,000	$ 137,852
Total	419,000		208,000	137,852
California Educational Facilities Authority ("CEFA") Revenue Bonds Series 2005A & 2005B	70,335,000	3.00 to 5.25%	70,335,000	–
Total	$ 70,754,000		$ 70,543,000	$ 137,852

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

Year Ending June 30,	1979 HUD Dormitory Bonds	Series 2005A & 2005B CEFA Bonds	Total
2007	$ 12,000	$ –	$ 12,000
2008	12,000	1,165,000	1,177,000
2009	13,000	1,195,000	1,208,000
2010	13,000	1,240,000	1,253,000
2011	14,000	1,275,000	1,289,000
2012 and thereafter	144,000	65,460,000	65,604,000
	$ 208,000	$ 70,335,000	$ 70,543,000

The estimated fair value of the College's bonds payable was approximately $71,111,733 and $74,739,137 at June 30, 2006 and 2005, 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.

7. Bonds Payable (Continued)

Dormitory Bonds

Dormitory bonds are collateralized by mortgages on certain dormitories, net revenues from operations of certain dormitories, and student tuition fees not to exceed $24,000 in any one year. The bonds are currently redeemable at prices stipulated in the bond indenture agreements.

Under terms of the bond indentures, semiannual payments are required to be paid to a trustee for bond service in amounts sufficient to fund current year principal and interest payments and to maintain deposits with bank trustees at stipulated amounts.

California Educational Facilities Authority Bonds

In April 2005, the College issued $70,335,000 in bonds through the California Educational Facilities Authority ("CEFA"). The College issued serial bonds with fixed-interest rates ranging from 3.00% to 5.25%, payable on April 1 and October 1 through 2036.

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

As a result, the CEFA Series 1997 Bonds have been legally defeased and the liability for them has been removed from the balance sheets. The College incurred a loss on defeasance of approximately $1,798,000 as a result of the refunding, which is reflected in the operating expenses of the Statement of Activities for the year ending June 30, 2005. The loss on the advance refunding will be offset by lower interest expense over the life of the CEFA Series 2005A and 2005B Bonds.

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.

8. Net Assets

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

	2006	2005
Net assets		
Unrestricted:		
Designated – educational and general	$ 9,129,913	$ 10,891,531
Designated – functioning as endowment	225,162,403	193,843,616
Designated – student loan funds	3,055,951	2,664,958
Designated – life income and annuity contracts	2,519,173	2,326,879
Designated – renewal and replacement	388,256	1,304,925
Invested in property and equipment	46,733,790	46,932,597
Total unrestricted net assets	286,989,486	257,964,506
Temporarily restricted		
Contracts	986,399	697,001
Life income and annuity contracts	6,049,199	4,773,769
Property and equipment funds	5,133,402	2,561,536
Contributions receivable, net	1,251,065	1,744,227
Assets held in trust by others	6,772,142	6,573,199
Total temporarily restricted net assets	20,192,207	16,349,732
Permanently restricted		
Endowment corpus	90,932,437	86,109,112
Life income and annuity contracts	10,303,206	8,947,412
Loan funds	11,459,723	11,393,186
Contributions receivable, net	882,689	547,448
Assets held in trust by others	5,816,664	6,082,871
Total permanently restricted net assets	119,394,719	113,080,029
Total net assets	$ 426,576,412	$ 387,394,267

9. Pension 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, 2006 and 2005 were approximately $2,781,000 and $2,597,000, respectively, which are included as expenditures in the Statements of Activities.

10. Fundraising Expenses

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

11. Commitments and Contingencies

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

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

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

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

12. New Accounting Standards

In March of 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"), which was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143 "Accounting for Asset Retirement Obligations." FIN 47 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 entity. 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.

FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance in FIN 47, management of the College determined that sufficient information was available to reasonably estimate the fair value of known retirement obligations. With regard to the FIN 47 regulation, the College recognized the liability for remediation of asbestos and lead-based paint.

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in an accounting principle. Specifically, FIN 47 requires the recognition of a cumulative effect, the cumulative accretion and accumulated depreciation for the period from the date the liability was incurred to the date of adoption of this interpretation. The liability incurred date is presumed to be the later of when the legal requirement to perform the asset retirement activity was enacted or the date the asset was acquired or constructed.

12. New Accounting Standards (Continued)

Upon adoption of FIN 47, the College recognized $2,711,835 as the cumulative effect of a change in accounting principle in the Statement of Activities. As of June 30, 2006, there were no asset retirement costs, net of accumulated depreciation included in property, plant and equipment, and $2,711,835 of conditional retirement asset obligations are included within other liabilities in the Balance Sheet. Had the provisions of FIN 47 been adopted at July 1, 2004, the amount recognized in the Statement of Activities for the years ended June 30, 2006 and 2005 would have been $45,603 and $44,836, respectively.