

Occidental College

Los Angeles, California 90041

EIN 951667177

**Report on Audited Financial Statements
and Federal Awards Audit Reports
For the Year Ended June 30, 2008**

Occidental College
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For the Year Ended June 30, 2008

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Report of Independent Auditors

To the Board of Trustees
Occidental College

In our opinion, the accompanying balance sheets and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Occidental College (the "College") at June 30, 2008 and 2007, 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2008 on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2008, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

November 19, 2008

Occidental College
Balance Sheets
As of June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	\$ 1,651,571	\$ 4,382,491
Assets whose use is limited	27,282,435	20,645,531
Student accounts receivable, less allowance for doubtful accounts of \$206,978 and \$237,059 at June 30, 2008 and 2007, respectively	304,089	366,603
Contracts and grants receivable	1,678,274	1,305,298
Student notes receivable, less allowance for doubtful accounts of \$2,306,738 and \$2,378,076 at June 30, 2008 and 2007, respectively	16,678,092	15,930,593
Contributions receivable, net	1,720,839	2,165,421
Inventories	562,469	536,731
Trust deeds receivable	2,534,920	2,785,875
Investments	410,134,039	434,191,714
Property and equipment, net	127,967,660	105,677,645
Other assets	707,473	1,378,779
Deposits with bank trustees	149,771	150,221
Bond issuance costs	1,822,503	1,265,670
Assets held in trust by others	<u>13,775,073</u>	<u>14,920,526</u>
Total assets	<u>\$ 606,969,208</u>	<u>\$ 605,703,098</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 13,031,615	\$ 12,098,372
Student deposits and deferred revenue	5,694,163	4,578,339
Bonds payable	89,354,000	70,531,000
Bond premium, net	1,898,447	1,971,464
Government loans payable	4,167,567	4,167,567
Annuities payable	15,681,538	15,372,650
Asset Retirement Obligation	<u>2,474,354</u>	<u>2,629,194</u>
Total liabilities	<u>132,301,684</u>	<u>111,348,586</u>
Commitments and contingencies (Note 10)		
Net assets		
Unrestricted	321,943,041	340,209,720
Temporarily restricted	20,079,567	20,700,288
Permanently restricted	<u>132,644,916</u>	<u>133,444,504</u>
Total net assets	<u>474,667,524</u>	<u>494,354,512</u>
Total liabilities and net assets	<u>\$ 606,969,208</u>	<u>\$ 605,703,098</u>

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

Occidental College
Statements of Activities
For the Year Ended June 30, 2008 (with comparative totals for the year
ended June 30, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Operating Revenues					
Tuition and fees	\$ 64,706,361	\$ -	\$ -	\$ 64,706,361	\$ 59,876,839
Room and board	11,710,089	-	-	11,710,089	11,220,028
Less: Financial assistance	<u>(23,350,334)</u>	<u>-</u>	<u>-</u>	<u>(23,350,334)</u>	<u>(20,645,836)</u>
Net student revenues	53,066,116	-	-	53,066,116	50,451,031
Private gifts, grants, and contracts	7,410,767	371,758	2,194,677	9,977,202	24,927,725
Federal and state grants and contracts	2,874,125	-	-	2,874,125	2,543,305
Investment income designated for operations	14,494,351	-	-	14,494,351	14,141,594
Other	4,534,778	220	1,882	4,536,880	4,678,406
Net assets released for operations	<u>61,980</u>	<u>(61,980)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>82,442,117</u>	<u>309,998</u>	<u>2,196,559</u>	<u>84,948,674</u>	<u>96,742,061</u>
Operating Expenditures					
Academic program	43,664,188	-	-	43,664,188	39,703,891
Co-curricular program	24,286,220	-	-	24,286,220	20,170,649
Public service	3,353,260	-	-	3,353,260	3,979,675
Marketing	8,374,514	-	-	8,374,514	8,434,080
Institutional support	<u>6,794,630</u>	<u>-</u>	<u>-</u>	<u>6,794,630</u>	<u>6,452,139</u>
Total expenditures	<u>86,472,812</u>	<u>-</u>	<u>-</u>	<u>86,472,812</u>	<u>78,740,434</u>
Operating (loss) income	(4,030,695)	309,998	2,196,559	(1,524,138)	18,001,627
Other Changes in Net Assets					
Net assets released for capital expenditures	256,925	(256,925)	-	-	-
Present value adjustment for annuities	(394,856)	260,181	(1,212,804)	(1,347,479)	(3,886,520)
Change in fair market value of assets held in trust by others	-	(637,189)	(508,265)	(1,145,454)	1,167,238
Realized and unrealized (losses) gains, net of allocation to operations and net of investment expense of \$3,779,819 for the year ended June 30, 2008	(13,608,942)	(486,689)	(1,574,286)	(15,669,917)	52,495,755
Redesignation of net assets	<u>(489,111)</u>	<u>189,903</u>	<u>299,208</u>	<u>-</u>	<u>-</u>
Total other changes in net assets	<u>(14,235,984)</u>	<u>(930,719)</u>	<u>(2,996,147)</u>	<u>(18,162,850)</u>	<u>49,776,473</u>
Changes in net assets	(18,266,679)	(620,721)	(799,588)	(19,686,988)	67,778,100
Net assets, beginning of year	<u>340,209,720</u>	<u>20,700,288</u>	<u>133,444,504</u>	<u>494,354,512</u>	<u>426,576,412</u>
Net assets, end of year	<u>\$321,943,041</u>	<u>\$ 20,079,567</u>	<u>\$132,644,916</u>	<u>\$474,667,524</u>	<u>\$494,354,512</u>

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

Occidental College
Statement of Activities
For the Year Ended June 30, 2007 (with comparative totals for the year ended
June 30, 2006)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
Operating Revenues					
Tuition and fees	\$ 59,876,839	\$ —	\$ —	\$ 59,876,839	\$ 56,058,197
Room and board	11,220,028	—	—	11,220,028	10,905,145
Less: Financial assistance	<u>(20,645,836)</u>	<u>—</u>	<u>—</u>	<u>(20,645,836)</u>	<u>(20,121,691)</u>
Net student revenues	50,451,031	—	—	50,451,031	46,841,651
Private gifts, grants, and contracts	10,139,775	1,273,458	13,514,492	24,927,725	19,717,513
Federal and state grants and contracts	2,543,305	—	—	2,543,305	2,537,275
Investment income designated for operations	14,141,594	—	—	14,141,594	13,101,322
Other	4,676,517	1,889	—	4,678,406	4,531,577
Net assets released for operations	<u>245,530</u>	<u>(245,530)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenues	<u>82,197,752</u>	<u>1,029,817</u>	<u>13,514,492</u>	<u>96,742,061</u>	<u>86,729,338</u>
Operating Expenditures					
Academic program	39,703,891	—	—	39,703,891	38,146,800
Co-curricular program	20,170,649	—	—	20,170,649	18,437,221
Public service	3,979,675	—	—	3,979,675	4,686,525
Marketing	8,434,080	—	—	8,434,080	8,408,625
Institutional support	<u>6,452,139</u>	<u>—</u>	<u>—</u>	<u>6,452,139</u>	<u>7,110,381</u>
Total expenditures	<u>78,740,434</u>	<u>—</u>	<u>—</u>	<u>78,740,434</u>	<u>76,789,552</u>
Operating income	3,457,318	1,029,817	13,514,492	18,001,627	9,939,786
Other Changes in Net Assets					
Net assets released for capital expenditures	1,573,038	(1,573,038)	—	—	—
Present value adjustment for annuities	(152,249)	(1,074,167)	(2,660,104)	(3,886,520)	(548,568)
Change in fair market value of assets held in trust by others	—	771,462	395,776	1,167,238	152,736
Realized and unrealized gains, net of allocation to operations and net of investment expense of \$3,248,487 for the year ended June 30, 2007	48,435,226	1,357,719	2,702,810	52,495,755	32,350,026
Redesignation of net assets	<u>(93,099)</u>	<u>(3,712)</u>	<u>96,811</u>	<u>—</u>	<u>—</u>
Total other changes in net assets	<u>49,762,916</u>	<u>(521,736)</u>	<u>535,293</u>	<u>49,776,473</u>	<u>31,954,194</u>
Cumulative effect of change in accounting principle	—	—	—	—	(2,711,835)
Changes in net assets	53,220,234	508,081	14,049,785	67,778,100	39,182,145
Net assets, beginning of year	<u>286,989,486</u>	<u>20,192,207</u>	<u>119,394,719</u>	<u>426,576,412</u>	<u>387,394,267</u>
Net assets, end of year	<u>\$340,209,720</u>	<u>\$ 20,700,288</u>	<u>\$133,444,504</u>	<u>\$494,354,512</u>	<u>\$426,576,412</u>

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

Occidental College
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Changes in net assets	\$ (19,686,988)	\$ 67,778,100
Adjustments to reconcile changes in net assets to net cash (used in)/provided by operating activities		
Depreciation and amortization	5,585,903	4,474,241
Loss on disposal of fixed assets	1,039,154	-
Gifts of stock and securities	(773,312)	(5,876,670)
Net unrealized and realized losses (gains) on investments	13,078,864	(52,495,755)
Contributions restricted for long-term investment	(260,909)	(13,514,492)
Student notes receivable, net	(76,359)	89,429
Changes in assets and liabilities		
Student accounts receivable, net	62,514	(78,483)
Contracts and grants receivable	(372,976)	(578,413)
Contributions receivable, net	105,864	(31,667)
Inventories	(25,738)	(13,319)
Other assets	671,306	987,657
Accounts payable and accrued expenses	1,158,029	2,616,462
Student deposits and deferred revenue	1,115,824	1,323,272
Other liabilities	(154,840)	(82,641)
Net cash provided by operating activities	<u>1,466,336</u>	<u>4,597,721</u>
Cash flows from investing activities		
Decrease in trust deeds receivable	250,955	138,519
Change in assets whose use is limited	(6,636,904)	22,041,238
Disbursement of student loan receivables	(3,069,518)	(2,761,685)
Collection of student loan receivables	2,398,377	2,791,768
Purchases of investments	(110,392,449)	(110,593,401)
Sales of investments	122,144,572	104,126,402
Purchases of property and equipment	<u>(29,145,180)</u>	<u>(28,039,148)</u>
Net cash used in investing activities	<u>(24,450,147)</u>	<u>(12,296,307)</u>
Cash flows from financing activities		
Contributions restricted for long-term investment	599,627	9,509,871
Deposits with bank trustees	450	(12,369)
Change in assets held in trust by others	1,145,453	(2,331,720)
Bond issuance costs	(624,527)	-
Repayment of long-term debt	(1,177,000)	(12,000)
Issuance of new debt	20,000,000	-
Increase in annuities payable	<u>308,888</u>	<u>3,184,573</u>
Net cash provided by financing activities	<u>20,252,891</u>	<u>10,338,355</u>
Net (decrease) increase in cash and cash equivalents	(2,730,920)	2,639,769
Cash and cash equivalents, beginning of year	<u>4,382,491</u>	<u>1,742,722</u>
Cash and cash equivalents, end of year	<u>\$ 1,651,571</u>	<u>\$ 4,382,491</u>
Supplemental cash flow information		
Cash paid for interest	<u>\$ 3,268,721</u>	<u>\$ 3,286,556</u>
Gifts of stock and securities	<u>\$ 773,312</u>	<u>\$ 5,876,670</u>
Unpaid fixed asset purchases	<u>\$ 2,378,817</u>	<u>\$ 2,603,602</u>

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

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

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.

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

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

Unrestricted Net Assets (Continued)

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 (up to 20 years), buildings and improvements (up to 40 years), and equipment and library books (up to 10 years). The College follows the policy of generally recording contributions of long-lived assets directly to unrestricted net assets. However, if the donor stipulates how long the assets must be used, the contributions 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 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 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. 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 "net assets released for operations" 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.

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

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

Revenues and Expenses (Continued)

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 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.

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. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 raised the Federal Deposit Insurance Corporation ("FDIC") insured limit to \$250,000 temporarily through December 31, 2009.

Assets Whose Use Is Limited

Certain proceeds of the serial bonds (see Note 6) held by trustees are limited as to use in accordance with the requirements of the trust agreements. The workers' compensation bank account is also limited as to use in accordance with State of California and insurance requirements. The assets whose use is limited are comprised of cash and cash equivalents.

Assets whose use is limited are recorded at fair value.

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

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

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 is based on information provided by external investment managers at the most recent valuation period date for the fiscal year-end. Real estate is stated at the lower of cost or fair value. Fair value for real estate is based on market appraisals. Market appraisals are obtained every four years unless a trend in the market warrants more frequent appraisals. 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. 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.

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.

Total Return Policy

Unrestricted revenue is supplemented by the transfer of additional amounts from unrestricted net assets designated – functioning 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 five-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 and the CEFA Series 2008 Bonds (see Note 6). 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
June 30, 2008 and 2007

1. Operations and 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 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 3.6% to 11.2% and the 2000 Annuity Mortality Table.

Asset Retirement Obligation

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.

In fiscal year 2006, 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. There were \$154,840 and \$82,641 asset retirement costs for the years ending June 30, 2008 and 2007, respectively and \$2,474,354 and \$2,629,194 of conditional retirement asset obligations included in the Balance Sheet for the years ending June 30, 2008 and 2007, respectively.

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

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 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. Actual results could differ from those estimates.

Tax-Exempt Status

The College is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and the corresponding sections of the California Revenue and Taxation Code, except for taxes on net unrelated business income. Since the College had no obligation for unrelated business income tax for the year ended June 30, 2008, no provisions for federal or state income taxes are required.

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.

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

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

Reclassifications

Within the statement of cash flows, disbursements and collections of student loans has been reclassified from operating activities to investing activities. The prior year amounts have been reclassified to conform with the current year presentation. In the statement of activities, some prior year Co-curricular program expenditures were also reclassified from Marketing expenditures to conform with 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, 2008 and 2007:

	<u>June 30, 2008</u>		
	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Cash and cash equivalents	\$ 34,509,952	\$ 34,509,952	\$ 34,509,952
Debt securities	58,246,024	58,878,166	58,878,166
Equities	160,339,053	167,098,576	167,098,576
Other equity investments	71,660,981	122,748,292	122,748,292
Nonmarketable alternative investments	20,514,715	24,549,605	24,549,605
Real estate	<u>2,349,447</u>	<u>2,349,447</u>	<u>2,349,447</u>
	<u>\$ 347,620,173</u>	<u>\$ 410,134,039</u>	<u>\$ 410,134,039</u>
	<u>June 30, 2007</u>		
	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Cash and cash equivalents	\$ 40,058,378	\$ 40,058,378	\$ 40,058,378
Debt securities	60,340,326	59,546,590	59,546,590
Equities	166,975,297	226,480,654	226,480,654
Other equity investments	54,636,366	95,092,060	95,092,060
Nonmarketable alternative investments	8,111,162	10,531,585	10,531,585
Real estate	<u>2,482,447</u>	<u>2,482,447</u>	<u>2,482,447</u>
	<u>\$ 332,603,976</u>	<u>\$ 434,191,714</u>	<u>\$ 434,191,714</u>

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

2. Investments (Continued)

The following schedule summarizes the College's investment return for the years ended June 30, 2008 and 2007:

	2008	2007
Dividends, interest and rents	\$ 15,683,117	\$ 13,410,533
Unrealized (losses) gains, net	(36,839,414)	33,426,437
Realized gains, net	<u>23,760,550</u>	<u>23,048,866</u>
	2,604,253	69,885,836
Less: Investment expense	(3,779,819)	(3,248,487)
Investment income designated for operations	<u>(14,494,351)</u>	<u>(14,141,594)</u>
Realized and unrealized (losses) gains, net of allocation to operations and investment expense	<u>\$ (15,669,917)</u>	<u>\$ 52,495,755</u>

The College paid investment management fees of approximately \$3,489,000 and \$2,967,000 for the years ended June 30, 2008 and 2007, respectively to the Investment companies.

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, 2008 and 2007:

	2008	2007
Unit-market value at end of year	<u>\$ 431.17</u>	<u>\$ 446.12</u>
Units owned		
Unrestricted		
Funds functioning as endowment	<u>156,493</u>	<u>176,298</u>
Total unrestricted	<u>156,493</u>	<u>176,298</u>
Permanently restricted		
Endowment funds	<u>678,334</u>	<u>671,108</u>
Total permanently restricted	<u>678,334</u>	<u>671,108</u>
Total units	<u>834,827</u>	<u>847,406</u>

At June 30, 2008 and 2007, investments include approximately \$31,098,000 and \$33,948,000, respectively, in securities related to life income and annuity contracts.

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

3. Trust Deeds Receivable

The College held notes receivable from faculty members and administrators totaling approximately \$2,307,000 and \$2,546,000 at June 30, 2008 and 2007, 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. Interest rates range from 5.0% to 6.61% with maturities up to 20 years. The College has \$300,000 of non-interest-bearing loans included in this amount at June 30, 2008 and 2007, respectively.

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 3.18% and 4.88% for the years ended June 30, 2008 and 2007. Amortization of the discount is included in gift revenue.

Contributions receivable are expected to be realized as follows:

	2008	2007
In one year or less	\$ 847,670	\$ 970,398
Between one year and five years	<u>1,054,224</u>	<u>1,445,351</u>
	1,901,894	2,415,749
Less: Discount	(90,484)	(136,358)
Allowance for uncollectible amounts	<u>(90,571)</u>	<u>(113,970)</u>
Contributions receivable, net	<u>\$ 1,720,839</u>	<u>\$ 2,165,421</u>

Contributions receivable at June 30, 2008 have the following restrictions:

Endowment for programs, activities and scholarships	\$ 1,231,053
Building construction	215,500
Education and general	<u>455,341</u>
Total	<u>\$ 1,901,894</u>

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

5. Property and Equipment

Property and equipment consists of the following at June 30, 2008 and 2007:

	2008	2007
Land and improvements	\$ 6,010,477	\$ 9,101,504
Buildings	150,945,266	111,777,479
Furniture and equipment	19,296,432	32,155,645
Construction-in-progress	<u>12,081,618</u>	<u>27,543,586</u>
	188,333,793	180,578,214
Less: Accumulated depreciation	<u>(60,366,133)</u>	<u>(74,900,569)</u>
Property and equipment, net	<u>\$ 127,967,660</u>	<u>\$ 105,677,645</u>

Depreciation expense for the years ended June 30, 2008 and 2007 was \$5,591,226 and \$4,500,381, respectively. Loss on disposal was \$1,039,154 for the year ending June 30, 2008.

6. Bonds Payable

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

	Authorized and Issued	Remaining Interest Rates	Remaining Bonds Outstanding	Deposits with Bank Trustees
1979 HUD Dormitory Bonds				
Series D	<u>\$ 419,000</u>	3.00%	<u>\$ 184,000</u>	<u>\$ 149,771</u>
California Educational Facilities Authority ("CEFA") Revenue Bonds				
Series 2005A & 2005B	<u>70,335,000</u>	3.00 to 5.25%	<u>69,170,000</u>	
Series 2008	<u>20,000,000</u>	4.00 to 5.30%	<u>20,000,000</u>	
Total	<u>\$ 90,754,000</u>		<u>\$ 89,354,000</u>	<u>\$ 149,771</u>

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

6. Bonds Payable (Continued)

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

<u>Year Ending June 30,</u>	1979 HUD Dormitory Bonds	Series 2005A & 2005B CEFA Bonds	Series 2008 CEFA Bonds	Total
2009	\$ 13,000	\$ 1,195,000		\$ 1,208,000
2010	13,000	1,240,000		1,253,000
2011	14,000	1,275,000	\$ 335,000	1,624,000
2012	14,000	1,325,000	350,000	1,689,000
2013	15,000	1,375,000	365,000	1,755,000
2014 and thereafter	<u>115,000</u>	<u>62,760,000</u>	<u>18,950,000</u>	<u>81,825,000</u>
	<u>\$ 184,000</u>	<u>\$ 69,170,000</u>	<u>\$ 20,000,000</u>	<u>\$ 89,354,000</u>

The estimated fair value of the College's bonds payable was approximately \$89,754,900 and \$71,838,800 at June 30, 2008 and 2007, 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.

Dormitory Bonds

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

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

California Educational Facilities Authority Bonds

In March 2008, the College issued \$20,000,000 in bonds through the California Educational Facilities Authority ("CEFA"). The College issued serial bonds with fixed-interest rates ranging from 4.00% to 5.30%, payable on April 1 and October 1 through 2038.

The CEFA Series 2008 Bonds will be used for certain capital projects.

The Series 2008 Bonds are collateralized by the pledge of certain revenues of the College including all tuition, room, and board fees, and other fees or charges arising out of general College operations.

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

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

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

6. Bonds Payable (Continued)

California Educational Facilities Authority Bonds (Continued)

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.

7. Net Assets

Net assets consist of the following at June 30, 2008 and 2007:

	2008	2007
Net assets		
Unrestricted		
Designated – educational and general	\$ 10,245,808	\$ 10,230,675
Designated – functioning as endowment	249,021,639	272,836,821
Designated – student loan funds	2,934,780	3,061,984
Designated – life income and annuity contracts	3,096,115	3,136,730
Designated – renewal and replacement	1,205,683	816,213
Invested in property and equipment	<u>55,439,016</u>	<u>50,127,297</u>
Total unrestricted net assets	<u>321,943,041</u>	<u>340,209,720</u>
Temporarily restricted		
Contracts	963,507	812,493
Life income and annuity contracts	5,790,572	6,185,483
Property and equipment funds	4,645,710	4,279,484
Contributions receivable, net	608,835	714,697
Assets held in trust by others	<u>8,070,943</u>	<u>8,708,131</u>
Total temporarily restricted net assets	<u>20,079,567</u>	<u>20,700,288</u>
Permanently restricted		
Endowment corpus	107,913,493	104,929,388
Life income and annuity contracts	6,101,159	9,302,684
Loan funds	11,814,130	11,549,313
Contributions receivable, net	1,112,004	1,450,724
Assets held in trust by others	<u>5,704,130</u>	<u>6,212,395</u>
Total permanently restricted net assets	<u>132,644,916</u>	<u>133,444,504</u>
Total net assets	<u>\$ 474,667,524</u>	<u>\$ 494,354,512</u>

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

8. 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, 2008 and 2007 were approximately \$3,161,000 and \$2,581,000, respectively, which are included as expenditures in the Statements of Activities.

9. Fundraising Expenses

During the years ended June 30, 2008 and 2007, the College incurred fundraising expenses of approximately \$3,743,000 and \$3,151,000, respectively, exclusive of expenses for Alumni Relations and Public Relations.

10. Commitments and Contingencies

In connection with certain other equity investments, the College has committed to make additional investments totaling approximately \$30,664,000 over the next several years.

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

11. New Accounting Standards

In September 2006 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. The statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands the disclosures about fair value measurement. It is effective for financial statements issued for fiscal years beginning after November 15, 2007. The College is currently evaluating the impact of this Statement of the College's financial statements.

Occidental College
Notes to Financial Statements
June 30, 2008 and 2007

11. New Accounting Standards (Continued)

In February 2007, the FASB issued SFAS No. 159, "Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115." This statement provides an option to report eligible financial assets and liabilities at fair value, with changes in fair value recognized in the statement of activities. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The College is currently evaluating the potential effect on the financial statements of adopting SFAS 159.

In August 2008, the FASB issued FASB Staff Position ("FSP")117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds. The standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and expands disclosures about an organization's endowment (both donor-restricted and board-designated funds), whether or not the organization is subject to UPMIFA. The standard is to be effective for fiscal years ending after December 15, 2008. The College is currently evaluating the potential effect on the financial statements of adopting FSP 117-1.

**Occidental College
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008**

Federal Grantor/Pass-Through Grantor/Program Title	Grant Period	CFDA No.	Expenditures
MAJOR PROGRAMS			
<u>Direct Funding</u>			
<u>Student Financial Aid</u>			
Department of Education			
Academic Competitiveness Grant	7/1/07 - 6/30/08	84.375	\$ 125,310
National SMART Grant	7/1/07 - 6/30/08	84.376	68,000
Federal Pell Grant	7/1/07 - 6/30/08	84.063	1,125,302
Federal Work Study Program	7/1/07 - 6/30/08	84.033	256,261
Federal Supplemental Educational Opportunity Grant	7/1/07 - 6/30/08	84.007	285,115
Total Student Financial Aid			<u>1,859,988</u>
Department of Education			
Upward Bound	6/1/04 - 5/31/09	84.047	<u>563,101</u>
Total Department of Education (Direct Funding)			<u>563,101</u>
<u>Pass-Through Funding</u>			
Department of Education			
GEAR UP Project Higher Learning Program at Washington Irving Middle School	7/1/00 - 6/30/08	84.334	12,811
GEAR-UP Project Higher Learning Program at Marshall High School	9/5/06 - 8/31/08	84.334	7,917
GEAR UP Project Higher Learning Program	9/1/05 - 8/31/11	84.334	135,759
GEAR-UP Project Higher Learning Program at Eagle Rock High School	10/9/06 - 8/31/11	84.334	40,370
Total Department of Education (Pass Through Funding)			<u>196,857</u>
Total Major Programs			<u>2,619,946</u>

The accompanying notes are an integral part of this schedule.

**Occidental College
 Schedule of Expenditures of Federal Awards (Continued)
 For the Year Ended June 30, 2008**

Federal Grantor/Pass-Through Grantor/Program Title	Grant Period	CFDA No.	Expenditures
NON-MAJOR PROGRAMS			
<u>Direct Funding</u>			
<u>Research and Development</u>			
National Science Foundation			
Magnetic Prop. Nickel Borocarbide	6/1/07 - 5/31/10	47.049	\$ 66,674
RUI Rapid Variation	7/1/04 - 6/30/08	47.049	26,302
Interfacial Chemistry of the Bacterial Predator	9/1/05 - 8/31/09	47.049	151,960
Dark Matter Drift-II	7/1/06 - 6/30/09	47.049	164,223
RUI Contractile Roots	8/1/05 - 7/31/08	47.074	75,138
RUI/Collabor Batholiths Gen & Evolution of Crust	9/1/03 - 8/31/09	47.050	50,212
USA & Costa Rica Research Experience for Students	1/1/06 - 12/31/08	47.079	15,757
RUI: Microtubule Regulation	4/1/07 - 3/31/10	47.074	91,367
Total National Science Foundation			<u>641,633</u>
National Institutes of Health			
Healthy Food, Healthy Schools, Healthy Communities	9/1/03 - 6/30/09	93.113	106,188
Total National Institutes of Health			<u>106,188</u>
Department of Energy			
Axial Trapping	7/15/06 - 7/14/09	81.049	54,417
Total Department of Energy			<u>54,417</u>
Total Research and Development			<u>802,238</u>
National Endowment for the Humanities			
Library Assessment Special Collections Preservation	1/1/07 - 6/30/08	45.149	2,934
Pitelka Fellowship	7/1/07 - 6/30/08	45.160	39,997
Total National Endowment for the Humanities			<u>42,931</u>
Total Programs - Direct Funding			<u>845,169</u>

The accompanying notes are an integral part of this schedule.

**Occidental College
 Schedule of Expenditures of Federal Awards (Continued)
 For the Year Ended June 30, 2008**

Federal Grantor/Pass-Through Grantor/Program Title	Grant Period	CFDA No.	Expenditures
Pass-Through Funding			
Department of Agriculture			
Fresh from the Farm	1/1/06 - 12/31/08	10.225	\$ 5,864
Riverside Harvest '07	10/1/06 - 9/30/08	10.561	56,066
CFSC Farmer to Market	10/1/06 - 9/30/07	10.443	3,270
Total Department of Agriculture			<u>65,200</u>
Department of Defense			
NSLI STARTALK Pilot Immersion Summer Camp Program	3/19/07 - 6/15/08	12.901	15,449
NSLI STARTALK Pilot Immersion Summer Camp Program - Supplemental	11/26/07 - 6/15/09	12.901	4,672
NSLI STARTALK Pilot Immersion Summer Camp Program - Arabic Front & Center	5/28/08 - 11/30/08	12.901	45,877
Total Department of Defense			<u>65,998</u>
Department of Education			
California State Department of Education Grants	7/1/07 - 6/30/08	84.069A	30,812
NCLB: CA Subject Matter Projects - Technical Assistance and Support Program 3	3/1/07 - 7/31/08	84.367	86,995
NCLB: CA Subject Matter Projects - Technical Assistance and Support Program Supplemental	9/1/07 - 6/30/08	84.367	19,999
Total Department of Education			<u>137,806</u>
Environmental Protection Agency			
Wet Cleaning Garment Care Project	11/1/05 - 1/31/08	66.708	11,768
Total Environmental Protection Agency			<u>11,768</u>
Total Non-Research and Development Non-Major Programs - Pass-Through Funding			<u>280,772</u>
Total Non-Major Programs			1,125,941
Total Federal Awards			<u>\$ 3,745,887</u>

The accompanying notes are an integral part of this schedule.

Occidental College
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal award transactions of Occidental College (the "College") recorded on the accrual basis of accounting.

Subrecipient

The College is the subrecipient of federal funds which are reported as expenditures and listed as federal pass-through funds.

2. Federal Perkins Loans

For the year ended June 30, 2008, the College advanced loans totaling \$639,365 for the Federal Perkins Loan Program (CFDA Number 84.038). As of June 30, 2008, \$5,227,063 of Federal Perkins Loans advanced by the College were outstanding.

3. Federal Family Education Loans

During the year ended June 30, 2008, the College processed \$6,495,238 in new loans under the Federal Family Education Loan Program, CFDA Number 84.032 (which includes Subsidized and Unsubsidized Stafford Loans and Parent Loans for Undergraduate Students).

**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***

To the Board of Trustees
Occidental College

We have audited the financial statements of Occidental College (the "College") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 20, 2008. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of 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*.

We noted certain matters that we reported to management of the College in a separate letter dated October 20, 2008.

This report is intended solely for the information and use of the College's Board of Trustees, Audit Committee, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

November 19, 2008

**Report of Independent Auditors on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

To the Board of Trustees of
Occidental College

Compliance

We have audited the compliance of Occidental College (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008, except as described in the second paragraph of this report. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We did not audit the College's compliance with the requirements governing Student Loan Billing and Due Diligence in Collection compliance requirements specified by the Federal Perkins Loan Program and described in the OMB *Circular A-133 Compliance Supplement*. Compliance with these requirements was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the College's compliance with those requirements, is based solely on the report of the other auditors. Additionally, we did not audit the College's compliance with the requirements governing the reporting requirements over Student Status Confirmation Reports compliance requirements specified by the Federal Family Education Loans Program and described in the OMB *Circular A-133 Compliance Supplement*. Compliance with these requirements was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the College's compliance with those requirements, is based solely on the report of the other auditors.

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 a 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. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, based on our audit and the reports of other auditors, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 08-1.

Internal Control over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, except as noted in the following paragraph, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

We did not consider internal control over compliance with the Student Loan Billing and Due Diligence in Collection compliance requirements specified by Federal Perkins Loan Program and described in the OMB Circular A-133 *Compliance Supplement*. Additionally, we did not consider internal control over compliance with the reporting requirements over Student Status Confirmation Reports specified by the Federal Family Education Loan Program and described in the OMB Circular A-133 *Compliance Supplement*. Internal control over these compliance requirements was considered by the other auditors referred to above; and our report, insofar as it relates to the College's internal control over those compliance requirements, is based solely upon the reports of the other auditors.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Our consideration and the other auditors' consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. Also, the reports of the other auditors did not identify any deficiencies in internal control over compliance that they consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the College's Board of Trustees, Audit Committee, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

November 19, 2008

Occidental College
Independent Auditors' Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? 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 that are not considered to be material weaknesses? yes none reported

Type of auditor’s report issued on compliance for major programs: Unqualified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
Various	Student Financial Aid Cluster
84.047	Upward Bound
84.334	Gear Up

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

No reportable matters.

Occidental College
Independent Auditors' Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2008

Section III – Federal Awards Findings and Questioned Costs

Part A – Instances of Non-Compliance Related to the Audit of Major Programs

Finding 08-1: Mathematical accuracy of time cards

Federal Agency

Department of Education

CFDA# & Title

84.033 Federal Work-Study Program

Criteria

Per federal regulation 34 CFR 675.19 (b)(2)(i), the College is required to include a certification by the student's supervisor that each student has worked and earned the amount being paid. The certification must be supported by, for Federal Work Study students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day.

Condition

The College uses timesheets which require the student to physically write in their time for each day, as well as fill in their time for their total hours worked for that day in order to scan the timesheet through a computer. After the student completes the time sheet, it is submitted to the appropriate department supervisor to review for accuracy and then authorize. Of the 53 timesheets tested (representing approximately \$6,940 in gross wages), we noted 4 instances in which the students were paid for hours that were incorrectly listed on the timesheets.

Questioned Cost

The total dollars associated with the incorrectly reported hours totaled approximately \$37.50. The questioned cost was calculated using the difference in hours recorded from the number of hours actually worked multiplied by the hourly pay rate.

Effect

Students were incorrectly paid a total number hours that were noted on the timesheets.

Cause

Supervisors did not properly review the mathematical accuracy of the timecards before approving the timecards.

Recommendation

We recommend that the College's management review its approval process to ensure that authorized approvers are confirming the mathematical accuracy of the timesheet.

Management's Views and Corrective Action Plan

Management's views and corrective action plan is noted in "Management's Views and Corrective Action Plan" and is considered part of this report.

Occidental College
Independent Auditors' Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs (Continued)

Part B – Other Reports

The College utilizes Affiliated Computer Services, Inc. Education Services (“ACS”) as its institutional servicer to perform certain compliance requirements related to the Perkins Loan Program. The ACS Audits of Federal Student Financial Assistance Programs Report for the year ended June 30, 2008 includes two findings related to application of grace period following deferment and improper processing of payment due dates, together with ACS management’s responses to these findings.

Section IV – Prior-Year Findings and Questioned Costs

No instances of noncompliance were noted during our FY07 testing.



OCCIDENTAL COLLEGE
1600 CAMPUS ROAD
LOS ANGELES, CA 90041-3314

November 19, 2008

TO WHOM IT MAY CONCERN:

The following are the Management Views and Corrective Action Plan for the finding on the 2007-08 A-133 audit:

Title: Student Financial Aid Cluster

Finding: Per federal regulation 34 CFR 675.19 (b)(2)(i), the College is required to include a certification by the student's supervisor that each student has worked and earned the amount being paid. The certification must be supported by, for Federal Work Study students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day.

The College uses timesheets which require the student to physically write in their time for each day, as well as fill in their time for their total hours worked for that day in order to scan the timesheet through a computer. After the student completes the time sheet, it is submitted to the appropriate department supervisor to review for accuracy and then authorize. Of the 53 timesheets tested (representing approximately \$6,940 in gross wages), we noted 4 instances in which the students were paid for hours that were incorrectly listed on the timesheets.

Students were incorrectly paid a total number hours that were noted on the timesheets.

Agreement: We have read the finding and are in agreement with said finding.

Corrective Action: The College is in the process of converting to a web based time keeping system which will ensure that all time sheets are mathematically accurate.

Barbara G. Valiente
Associate Vice President for Finance and Controller