Occidental College

Report on Audited Financial Statements

For the Years Ended June 30, 2008 and 2007

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
350 South Grand Avenue
Los Angeles CA 90071
Telephone (213) 356 6000
Facsimile (813) 637 4444

Report of Independent Auditors

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. 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.

PricewaterhouseCoopers LLP

October 20, 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	13,775,073	14,920,526
Total assets	$ 606,969,208	$ 605,703,098
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	2,474,354	2,629,194
Total liabilities	132,301,684	111,348,586
Commitments and contingencies (Note 10)		
Net assets		
Unrestricted	321,943,041	340,209,720
Temporarily restricted	20,079,567	20,700,288
Permanently restricted	132,644,916	133,444,504
Total net assets	474,667,524	494,354,512
Total liabilities and net assets	$ 606,969,208	$ 605,703,098

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	(23,350,334)	–	–	(23,350,334)	(20,645,836)
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	61,980	(61,980)	–	–	–
Total revenues	82,442,117	309,998	2,196,559	84,948,674	96,742,061
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	6,794,630	–	–	6,794,630	6,452,139
Total expenditures	86,472,812	–	–	86,472,812	78,740,434
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	(489,111)	189,903	299,208	–	–
Total other changes in net assets	(14,235,984)	(930,719)	(2,996,147)	(18,162,850)	49,776,473
Changes in net assets	(18,266,679)	(620,721)	(799,588)	(19,686,988)	67,778,100
Net assets, beginning of year	340,209,720	20,700,288	133,444,504	494,354,512	426,576,412
Net assets, end of year	$321,943,041	$ 20,079,567	$132,644,916	$474,667,524	$494,354,512

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	(20,645,836)	–	–	(20,645,836)	(20,121,691)
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	245,530	(245,530)	–	–	–
Total revenues	82,197,752	1,029,817	13,514,492	96,742,061	86,729,338
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	6,452,139	–	–	6,452,139	7,110,381
Total expenditures	78,740,434	–	–	78,740,434	76,789,552
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	(93,099)	(3,712)	96,811	–	–
Total other changes in net assets	49,762,916	(521,736)	535,293	49,776,473	31,954,194
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	286,989,486	20,192,207	119,394,719	426,576,412	387,394,267
Net assets, end of year	$340,209,720	$ 20,700,288	$133,444,504	$494,354,512	$426,576,412

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	1,466,336	4,597,721
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	(29,145,180)	(28,039,148)
Net cash used in investing activities	(24,450,147)	(12,296,307)
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	308,888	3,184,573
Net cash provided by financing activities	20,252,891	10,338,355
Net (decrease) increase in cash and cash equivalents	(2,730,920)	2,639,769
Cash and cash equivalents, beginning of year	4,382,491	1,742,722
Cash and cash equivalents, end of year	$ 1,651,571	$ 4,382,491
Supplemental cash flow information		
Cash paid for interest	$ 3,268,721	$ 3,286,556
Gifts of stock and securities	$ 773,312	$ 5,876,670
Unpaid fixed asset purchases	$ 2,378,817	$ 2,603,602

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.

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.

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.

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.

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.

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.

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:

	June 30, 2008		
	Cost Basis	Fair Value	Carrying Value
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	2,349,447	2,349,447	2,349,447
	$ 347,620,173	$ 410,134,039	$ 410,134,039

	June 30, 2007		
	Cost Basis	Fair Value	Carrying Value
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	2,482,447	2,482,447	2,482,447
	$ 332,603,976	$ 434,191,714	$ 434,191,714

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	23,760,550	23,048,866
	2,604,253	69,885,836
Less: Investment expense	(3,779,819)	(3,248,487)
Investment income designated for operations	(14,494,351)	(14,141,594)
Realized and unrealized (losses) gains, net of allocation to operations and investment expense	$ (15,669,917)	$ 52,495,755

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	$ 431.17	$ 446.12
Units owned		
Unrestricted		
Funds functioning as endowment	156,493	176,298
Total unrestricted	156,493	176,298
Permanently restricted		
Endowment funds	678,334	671,108
Total permanently restricted	678,334	671,108
Total units	834,827	847,406

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.

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	1,054,224	1,445,351
	1,901,894	2,415,749
Less: Discount	(90,484)	(136,358)
Allowance for uncollectible amounts	(90,571)	(113,970)
Contributions receivable, net	$ 1,720,839	$ 2,165,421

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	455,341
Total	$ 1,901,894

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	12,081,618	27,543,586
	188,333,793	180,578,214
Less: Accumulated depreciation	(60,366,133)	(74,900,569)
Property and equipment, net	$ 127,967,660	$ 105,677,645

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	$ 419,000	3.00%	$ 184,000	$ 149,771
California Educational Facilities Authority ("CEFA") Revenue Bonds				
Series 2005A & 2005B	70,335,000	3.00 to 5.25%	69,170,000	
Series 2008	20,000,000	4.00 to 5.30%	20,000,000	
Total	$ 90,754,000		$ 89,354,000	$ 149,771

6. Bonds Payable (Continued)

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	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	115,000	62,760,000	18,950,000	81,825,000
	$ 184,000	$ 69,170,000	$ 20,000,000	$ 89,354,000

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.

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	55,439,016	50,127,297
Total unrestricted net assets	321,943,041	340,209,720
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	8,070,943	8,708,131
Total temporarily restricted net assets	20,079,567	20,700,288
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	5,704,130	6,212,395
Total permanently restricted net assets	132,644,916	133,444,504
Total net assets	$ 474,667,524	$ 494,354,512

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.

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.