Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

OCCIDENTAL COLLEGE

June 30, 2009 and 2008

Contents

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Audit • Tax • Advisory

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Report of Independent Certified Public Accountants

Board of Trustees
Occidental College

We have audited the accompanying balance sheet of Occidental College (the "College") as of June 30, 2009 and the related statements of activities and cash flows for the year then ended. 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 audit. The financial statements of the College as of and for the year ended June 30, 2008 were audited by other auditors. These auditors expressed an unqualified opinion on those financial statements in their report dated October 20, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Occidental College as of June 30, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, the College changed its method of accounting for endowments in accordance with FSP FAS 117-1.

Grant Thornton LLP

Los Angeles, California
December 15, 2009

Occidental College

BALANCE SHEETS

As of June 30, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 2,917,741	$ 1,651,571
Assets whose use is limited	13,738,198	27,282,435
Student accounts receivable, less allowance for doubtful accounts of $242,670 and $206,978 at June 30, 2009 and 2008, respectively	333,737	304,089
Contracts and grants receivable	1,039,295	1,678,274
Contributions receivable, net	1,382,924	1,720,839
Inventories	562,441	562,469
Other assets	835,269	707,473
Deposits with bank trustees	136,018	149,771
Trust deeds receivable	2,369,553	2,534,920
Student notes receivable, less allowance for doubtful accounts of $2,935,677 and $2,306,738 at June 30, 2009 and 2008, respectively	17,401,044	16,678,092
Investments	322,957,348	410,134,039
Property and equipment, net	132,106,265	127,967,660
Bond issuance costs	1,754,809	1,822,503
Assets held in trust by others	8,494,706	13,775,073
Total current assets	$ 506,029,348	$ 606,969,208
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 10,876,739	$ 13,031,615
Student deposits and deferred revenue	4,962,189	5,694,163
Bonds payable	88,146,000	89,354,000
Bond premium, net	1,825,429	1,898,447
Government loans payable	4,167,567	4,167,567
Annuities payable	12,295,647	15,681,538
Asset retirement obligation	2,345,676	2,474,354
Total liabilities	124,619,247	132,301,684
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted (See Note 12)	112,209,799	321,943,041
Temporarily restricted (See Note 12)	137,508,381	20,079,567
Permanently restricted	131,691,921	132,644,916
Total net assets	381,410,101	474,667,524
Total liabilities and net assets	$ 506,029,348	$ 606,969,208

The accompanying notes are an integral part of this statement.

Occidental College

STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

(with comparative totals for the year ended June 30, 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
Operating Revenues					
Tuition and fees	$ 67,003,519	$ -	$ -	$ 67,003,519	$ 64,706,361
Room and board	14,086,884	-	-	14,086,884	11,710,089
Less: Financial assistance	(24,836,708)	-	-	(24,836,708)	(23,350,334)
Net student revenues	56,253,695	-	-	56,253,695	53,066,116
Private gifts, grants and contracts	8,949,412	44,291	874,886	9,868,589	9,977,202
Federal and state grants and contracts	2,481,122	-	-	2,481,122	2,874,125
Investment income designated for operations	15,581,616	-	-	15,581,616	14,494,351
Other	4,799,846	50	150	4,800,046	4,536,880
Net assets released from restrictions	85,416	(85,416)	-	-	-
Total revenues	88,151,107	(41,075)	875,036	88,985,068	84,948,674
Operating Expenditures					
Academic program	45,147,773	-	-	45,147,773	43,664,188
Co-curricular program	26,264,564	-	-	26,264,564	24,286,220
Public service	4,111,338	-	-	4,111,338	3,353,260
Marketing	9,442,621	-	-	9,442,621	8,374,514
Institutional support	8,549,489	-	-	8,549,489	6,794,630
Total expenditures	93,515,785	-	-	93,515,785	86,472,812
Operating (loss) income	(5,364,678)	(41,075)	875,036	(4,530,717)	(1,524,138)
Other changes in net assets					
Net assets released for capital expenditures	38,571	(38,571)	-	-	-
Present value adjustment for annuities	(205,327)	239,121	2,129,555	2,163,349	(1,347,479)
Change in fair market value of assets held in trust by others	-	(2,117,174)	(1,105,612)	(3,222,786)	(1,145,454)
Realized and unrealized (losses) gains, net of allocation to operations and net of investment expense of $3,531,803 for the year ended June 30, 2009	(83,426,680)	(1,298,013)	(2,942,576)	(87,667,269)	(15,669,917)
Redesignation of net assets	199,962	(290,564)	90,602	-	-
Total other changes in net assets	(83,393,474)	(3,505,201)	(1,828,031)	(88,726,706)	(18,162,850)
Net asset reclassification based on change in accounting standard (See Note 12)	(120,975,090)	120,975,090	-	-	-
Changes in net assets	(209,733,242)	117,428,814	(952,995)	(93,257,423)	(19,686,988)
Net assets, beginning of year	321,943,041	20,079,567	132,644,916	474,667,524	494,354,512
Net assets, end of year	$ 112,209,799	$ 137,508,381	$ 131,691,921	$ 381,410,101	474,667,524

The accompanying notes are an integral part of this statement.

Occidental College

STATEMENT 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 from restrictions	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 this statement.

Occidental College

STATEMENTS OF CASH FLOWS

As of June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Changes in net assets	$ (93,257,423)	$ (19,686,988)
Adjustments to reconcile changes in net assets to		
net cash (used in) provided by operating activities:		
Depreciation and amortization	6,218,757	5,585,903
Loss on disposal of fixed assets	-	1,039,154
Gifts of stock and securities	(158,335)	(773,312)
Net unrealized and realized losses on investments	76,987,993	13,078,864
Contributions restricted for long-term investments	(874,886)	(260,909)
Student notes receivable, net	1,115,961	(76,359)
Changes in assets and liabilities:		
Student accounts receivable, net	(29,648)	62,514
Contracts and grants receivables	638,979	(372,976)
Contributions receivable, net	4,865	105,864
Inventories	28	(25,738)
Other assets	(127,796)	671,306
Accounts payable and accrued expenses	(2,154,876)	1,158,029
Student deposits and deferred revenue	(731,974)	1,115,824
Other liabilities	(128,678)	(154,840)
Net cash (used in) provided by operating activities	(12,497,033)	1,466,336
Cash flows from investing activities:		
Decrease in trust deeds receivable	165,367	250,955
Change in aseets whose use is limited	13,544,237	(6,636,904)
Disbursement of student loan receivables	(3,784,070)	(3,069,518)
Collection of student loan receivables	1,945,157	2,398,377
Purchases of investments	(75,936,613)	(110,392,449)
Sales of investments	86,283,646	122,144,572
Purchases of property and equipment	(10,362,686)	(29,145,180)
Net cash provided by (used in) investing activities	11,855,038	(24,450,147)
Cash flows from financing activities:		
Contributions restricted for long-term investment	1,207,936	599,627
Deposits with bank trustees	13,753	450
Change in assets held in trust by others	5,280,367	1,145,453
Bond issuance costs	-	(624,527)
Repayment of long-term debt	(1,208,000)	(1,177,000)
Issuance of new debt	-	20,000,000
Change in annuities payable	(3,385,891)	308,888
Net cash provided by financing activities	1,908,165	20,252,891
Net increase (decrease) in cash and cash equivalents	1,266,170	(2,730,920)
Cash and cash equivalents at beginning of year	1,651,571	4,382,491
Cash and cash equivalents at end of year	$ 2,917,741	$ 1,651,571
Supplemental cash flow information:		
Cash paid for interest	$ 4,301,751	$ 3,268,721
Gifts of stock and securities	$ 158,335	$ 773,312
Unpaid fixed asset purchases	$ 290,425	$ 2,378,817

The accompanying notes are an integral part of this statement.

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

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Unrestricted Net Assets (continued)

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

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

Invested in property and equipment – includes property and equipment stated at cost or fair market value at the date of gift, less accumulated depreciation and any related debt. 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 accumulated endowment investment gains (see Note 12), 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.

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 from restrictions” from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are met in the period in which the assets are acquired or placed into service.

Contributions, 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 short-term and mid-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.

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 on interest bearing accounts temporarily through June 30, 2013. In addition, under this program all non-interest bearing transaction accounts are fully guaranteed by the FDIC through June 30, 2010.

Assets Whose Use Is Limited

Certain proceeds of the serial bonds (see Note 7) held by trustees are limited as to use in accordance with the requirements of the trust agreements. The 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.

Investments

Investments are stated at fair value. The fair value of investments is based on quoted prices from national security exchanges, except for limited partnerships, mortgages, and venture capital which are based on information provided by external investment managers at the most recent valuation period date for the fiscal year-end. 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.

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Investments (continued)

All investments of permanently restricted net assets and unrestricted net assets designated as endowment funds are carried in an investment pool unless special considerations or donor stipulations require that they be held separately.

Management of Pooled Investments

The College follows an investment policy for its pooled endowment investments which anticipates a greater long-range return through investing for capital appreciation and long-term growth. According to the College's policy, the amount of investment return available for current operations is determined by applying a specified percentage, 5.4%, of a twenty-one-quarter average unit market value to the units held as of June 30 of the prior fiscal year.

Inventories

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

Bond Issuance Costs

Bond issuance costs represent insurance, issuance and underwriters' costs related to the CEFA Series 2005A and 2005B Bonds and the CEFA Series 2008 Bonds (see Note 7). These amounts are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

Collections

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

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 Financial Accounting Standards Board (“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.

There were $128,678 and $154,840 asset retirement costs for the years ending June 30, 2009 and 2008, respectively and $2,345,676 and $2,474,354 of conditional retirement asset obligations included in the Balance Sheet for the years ending June 30, 2009 and 2008, respectively.

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.

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

Income Taxes

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.

In July 2006, the FASB issued FASB Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109, Accounting for Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements and prescribes a threshold of more-likely than-not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. The College has applied FIN 48 to all tax positions for which the statute of limitations remained open and determined there were no material unrecognized tax benefits. In addition, there have been no material changes in unrecognized benefits since July 1, 2008, nor are any anticipated in the next 12 months. There have been no related tax penalties or interest, which would be classified as tax expense in the statement of activities. As a result, the adoption of FIN 48 did not have a material effect on the College’s financial statements.

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

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fair Value of Financial Instruments (continued)

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.

Comparative Summarized Amounts

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

Redesignation of Net Assets

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

Reclassifications

Certain prior year amounts have been reclassified to agree with current year presentation

NOTE 2 – FAIR VALUE MEASUREMENTS

FASB Statement No. 157, *Fair Value Measurements* ("SFAS 157"), is effective for financial statements issued for fiscal years beginning after November 15, 2007. The College adopted SFAS 157 on July 1, 2008. SFAS 157 established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below:

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

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable of the asset or liability;

NOTE 2 – FAIR VALUE MEASUREMENTS - Continued

- Inputs that are derived principally from or corroborated by observable market data by correlation or to other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table summarizes the valuation of the College's investments by the SFAS 157 fair value hierarchy levels as of June 30, 2009:

	Level 1	Level 2	Level 3	Total Investments
Cash and cash equivalents	$ 26,529,074	$ -	$ -	$ 26,529,074
Debt securities	43,893,943	7,631,987	1,752,500	53,278,430
Equities	51,626,517	50,154,496	25,286,761	127,067,774
Other equity investments	-	-	83,643,820	83,643,820
Nonmarketable alternative investments	-	-	30,213,805	30,213,805
Total	$ 122,049,534	$ 57,786,483	$ 140,896,886	$ 320,732,903

The following table summarizes the valuation of the College's Level 3 reconciliation by the SFAS 157 standards for the year ended June 30, 2009:

	Level 3 Assets Year Ended June 30, 2009
Beginning balance	$ 180,808,709
Total gains or losses	
Included in changes in net assets	(39,133,525)
Purchases	26,409,472
Sales	(27,187,770)
Transfers in and / or our of Level 3	-
Ending balance	$ 140,896,886

NOTE 3 – INVESTMENTS

The carrying value of investments is based on the quoted market prices, analytical pricing methods for investments for which there is no market, and the carrying value of limited partnership net assets in proportion to the College's interest. The carrying values are considered fair values, except for real estate. The following schedule summarizes the assets in pooled investments and the assets held as separate investments at June 30, 2009 and 2008:

	2009	2008
Cash and cash equivalents	$ 26,529,074	$ 34,509,953
Debt securities	53,278,430	58,878,166
Equities	127,067,774	167,098,576
Other equity investments	83,643,820	122,748,292
Nonmarketable alternative investments	30,213,805	24,549,605
Real estate	2,224,445	2,349,447
	$322,957,348	$410,134,039

The following schedule summarizes the College's investment return for the years ended June 30, 2009 and 2008:

	2009	2008
Dividends, interest and rents	$ 8,706,407	$ 15,683,117
Unrealized (losses) gains, net	(61,638,753)	(36,839,414)
Realized (losses) gains, net	(15,621,504)	23,760,550
	(68,553,850)	2,604,253
Less: Investment expense	(3,531,803)	(3,779,819)
Investment income designated for operation	(15,581,616)	(14,494,351)
Realized and unrealized (losses) gains, net of allocation to operations and investment expense	$(87,667,269)	$(15,669,917)

NOTE 3 – INVESTMENTS - Continued

Investment income was classified as follows for the year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends, interest and rents	$ 7,646,775	$ 358,691	$ 700,941	$ 8,706,407
Realized (losses)/gains, net	(15,590,436)	(46,967)	15,899	(15,621,504)
Unrealized losses, net	(56,373,259)	(1,685,879)	(3,579,615)	(61,638,753)
Total	$ (64,316,920)	$ (1,374,155)	$ (2,862,775)	$ (68,553,850)

Where permitted by gift agreement and/or applicable government regulations, investments are pooled. Pooled investments and allocations of pooled investment income are accounted for on a unit-making value method. The following schedule summarized the College's pooled investments for the years ended June 30, 2009 and 2008:

	2009	2008
Unit-market value at end of year	$ 330.52	$ 431.17
Units owned:		
Unrestricted:		
Education and general	16,914	-
Funds functioning as endowment	138,384	156,493
Total unrestricted	155,298	156,493
Permanently restricted:		
Endowment funds	689,944	678,334
Total permanently restricted	689,944	678,334
Total units	845,242	834,827

At June 30, 2009 and 2008, investments include approximately $22,964,000 and $28,891,000 respectively, in securities related to life income and annuity contracts.

NOTE 3 – INVESTMENTS - Continued

The following represents a description of the changes in net endowment assets for the year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net endowment assets, beginning of year	$ 249,021,639	$ -	$ 107,913,493	$ 356,935,132
Investment return:				
Investment income, net	6,987,054	-	-	6,987,054
Net depreciation	(74,474,914)	-	-	(74,474,914)
Total Investment return	(67,487,860)	-	-	(67,487,860)
New gifts	709,785		1,118,026	1,827,811
Appropriation for expenditures	(15,581,616)		-	(15,581,616)
Other changes, including redesignations	(1,405,371)		2,172,708	767,337
Net asset reclassification based on change in accounting standard (See Note 12)	(120,975,090)	120,975,090	-	-
Net endowment assets, end of year	$ 44,281,487	$ 120,975,090	$ 111,204,227	$ 276,460,804

NOTE 4 – TRUST DEEDS RECEIVABLE

The College held notes receivable from faculty members and administrators totaling approximately $2,257,000 and $2,307,000 at June 30, 2009 and 2008, 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, 2009 and 2008.

NOTE 5 – CONTRIBUTION 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 short-term and mid-term AFR to the present value of future cash flows. The AFR ranged from 3.18% and 3.58% for the years ended June 30, 2009 and 2008. Amortization of the discount is included in gift revenue.

NOTE 5 – CONTRIBUTION RECEIVABLE - Continued

Contributions receivable are expected to be realized as follows:

	2009	2008
	$ 633,670	$ 847,670
In one year or less	908,928	1,054,224
Between one year and five years		
	1,542,598	1,901,894
Less: Discount	(86,888)	(90,484)
Allowance for uncollectible amounts	(72,786)	(90,571)
Contributions receivable, net	$1,382,924	$1,720,839

Contributions receivable at June 30, 2009 have the following restrictions:

Endowment for programs, activities and scholarships	$ 851,533
Building construction	164,000
Education and general	527,065
Total	$1,542,598

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2009 and 2008:

	2009	2008
Land and improvements	$ 6,035,514	$ 6,010,477
Buildings	169,400,289	150,945,266
Furniture and equipment	20,812,472	19,296,432
Construction-in-progress	1,503,334	12,081,618
	197,751,609	188,333,793
Less: Accumulated depreciation	(65,645,344)	(60,366,133)
Property and equipment, net	$132,106,265	$127,967,660

Depreciation expense for the years ended June 30, 2009 and 2008 was $6,224,081 and $5,591,226, respectively. Loss on disposal was $0 and $1,039,154 for the years ending June 30, 2009 and 2008, respectively.

NOTE 7 – BONDS PAYABLE

Bonds payable at June 30, 2009 and 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%	$ 171,000	$136,018
California Educational Facilities Authority ("CEFA") Revenue Bonds Series 2005A & 2005B	70,335,000	3.00 to 5.25%	67,975,000	
Series 2008	20,000,000	4.00 to 5.30%	20,000,000	
Total	$90,754,000		$88,146,000	$136,018

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
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	15,000	1,430,000	375,000	1,820,000
2015 and thereafter	100,000	61,330,000	18,575,000	80,005,000
	$ 171,000	$ 67,975,000	$ 20,000,000	$ 88,146,000

The estimated fair value of the College's bonds payable was approximately $86,411,700 and $89,754,900 at June 30, 2009 and 2008, 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.

NOTE 7 – BONDS PAYABLE - Continued

Dormitory Bonds

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

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

California Educational Facilities Authority Bonds

In 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 were used for certain capital projects.

The Series 2008 Bonds are collateralized by the pledge of certain revenues of the College including all tuition, room, 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. The College was in compliance with all loan covenants at June 30, 2009.

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.

The CEFA Series 2005A and 2005B Bonds were used to legally decease 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. The College was in compliance with all loan covenants at June 30, 2009.

NOTE 8 – NET ASSETS

Net assets consist of the following at June 30, 2009 and 2008:

	2009	2008
Unrestricted		
Designated – educational and general	$ 9,347,051	$ 10,245,808
Designated – functioning as endowment	44,281,487	249,021,639
Designated – student loan funds	2,258,782	2,934,780
Designated – life income and annuity contracts	2,446,887	3,096,115
Designated – renewal and replacement	728,397	1,205,683
Invested in property and equipment	53,147,195	55,439,016
Total unrestricted net assets	112,209,799	321,943,041
Temporarily restricted		
Contracts	903,892	963,507
Accumulated endowment investment gains	120,975,090	-
Life income and annuity contracts	4,722,866	5,790,572
Property and equipment funds	4,335,879	4,645,710
Contributions receivable, net	603,970	608,835
Assets held in trust by others	5,966,684	8,070,943
Total temporarily restricted net assets	137,508,381	20,079,567
Permanently restricted		
Endowment corpus	111,204,227	107,913,493
Life income and annuity contracts	5,276,984	6,101,159
Loan funds	11,903,735	11,814,130
Contribution receivable, net	778,954	1,112,004
Assets held in trust by others	2,528,021	5,704,130
Total permanently restricted net assets	131,691,921	132,644,916
Total net assets	$381,410,101	$474,667,524

NOTE 9 – 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, 2009 and 2008 were approximately $3,321,000 and $3,161,000, respectively, which are included as expenditures in the Statements of Activities.

NOTE 10 - FUNDRAISING EXPENSES

During the years ended June 30, 2009 and 2008, the College incurred fundraising expenses of approximately $3,338,000 and $3,743,000, respectively, exclusive of expenses for Alumni Relations and Public Relations.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In connection with certain other equity investments, the College has committed to make additional investments totaling approximately $26,832,000 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.

NOTE 12 - ENDOWMENT FUNDS

The FASB issued Staff Position No. 117-1, *Endowment 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 Endowments Funds* ("FSP FAS 117-1"). FSP FAS 117-1 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. This FSP also requires additional disclosures about an organization's endowment funds for donor restricted and board designated endowments and became effective beginning July 1, 2008. The College adopted FSP FAS 117-1 for the year ended June 30, 2009. See note 3 for impact and required disclosures.

NOTE 12 - ENDOWMENT FUNDS - Continued

The Board of Trustees of the College interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) to state that the College, in the absence of explicit donor stipulations to the contrary, may appropriate for expenditure or accumulate so much of an endowment fund as the College determines prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. As a result of this interpretation, the College classifies as permanently restricted net assets, the original value of gifts donated to the endowment, original value of subsequent gifts to the endowment, and accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the College in a manner consistent with the standard of prudence prescribed by UPMIFA which includes the:

1) Duration and preservation of the fund
2) Mission of the College and the donor-restricted endowment fund
3) General economic conditions
4) Possible effects of inflation and deflation
5) Expected total return from income and appreciation of investments
6) Other resources of the College
7) Investment policy of the College

NOTE 13 - NEW ACCOUNTING STANDARDS

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosures of events that occur after the date of the statement of financial position but before financial statements are issued or are available to be issued. Among other things, SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for financial periods ending after June 15, 2009. The statement did not have a material effect on the College's financial statements. In connection with the adoption of SFAS 165, the College has evaluated subsequent events through December 15, 2009, the date the financial statements were available to be issued. The College is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

In June 2009, the FASB issued SFAS No. 168, *Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS 168 does not change GAAP and will not have a material impact on the College's financial statements.