SAINT MARY'S COLLEGE
OF CALIFORNIA

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended June 30, 2015 and 2014

SAINT MARY'S COLLEGE OF CALIFORNIA

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Saint Mary's College of California
P.O. Box 3554, Moraga, CA 94575-3554
tel. 925.631.4571 fax 925.376.8497
www.stmarys-ca.edu

Vice President for Finance

September 30, 2015

Members of the Board of Trustees
Saint Mary's College of California
1928 St. Mary's Road
Moraga, CA 94556

Dear Members of the Board:

Overview

Operating results for Saint Mary's College continued a multiyear trend of improvement for the fiscal year ended June 30, 2015. Primary evidence of this trend is the $3.5 million increase in total net assets that occurred despite challenging student recruitment and investment environments encountered over the past fiscal year that are explained below.

It should be noted that total net assets of $239.6 million as of June 30, 2015 is a record level for the College. It is also well above the pre-credit crisis and pre-recession high of $205.5 million that was recorded on June 30, 2008.

It should also be noted that the past fiscal year included the opening of the new Joseph L. Alioto Recreation Center that serves all of the College's students. The construction of this new project was funded by the College's donors and its construction impacted several items in the financial statements as noted below.

Audited Financial Statements

The audited financial statements of the College, along with related notes, are provided on the following pages. Also provided is the Independent Auditors' Report from Baker Tilly Virchow Krause, LLP that provides an opinion, without modification, on the fair presentation of the College's financial statements.

An explanation of the financial statements and notes is provided below along with some highlights of significant changes reflected in the statements.

Balance Sheet

The balance sheet (also known as the statement of financial position) details the status of the College's assets, liabilities, and net assets (or equity) as of June 30, 2015, the end of the fiscal year.

Significant changes in the balance sheet from the prior year include:

- *Assets* total $343.6 million and increased by $0.3 million or 0.1% from the prior year. This increase is reflective of the relatively minimal growth in the market value of the College's long-term investments as measured on June 30, 2015.

- *Liabilities* total $104.1 million and decreased by $3.2 million or 3.0%. This decrease can be attributed to a $3.5 million decrease in accounts payable related to the completion of the construction of the Alioto Recreation Center and a $1.7 million decrease in long-term debt due to scheduled debt service payments. These decreases were more than enough to offset a $1.4 increase in valuation of the interest rate swap agreement caused by depressed long-term interest rates.

- *Net assets* total $239.6 million and increased by $3.5 million or 1.5%. This increase is directly attributed to the $0.3 million increase in assets and the $3.2 million decrease in liabilities noted above.

Statement of Activities

The statement of activities (also known as the income statement) presents financial activity during the fiscal year. In doing so, it reconciles the beginning and end-of-year net asset positions (or equity).

Significant changes in the statement of activities include:

- *Total operating revenue, gains and other support* totaled $129.9 million and decreased by $0.2 million or less than 0.1% from the prior year's total. This decrease is primarily attributed to a decline in student headcount enrollment of 148 from fall 2013 to fall 2014. Two-thirds of this decline is attributed to a 97 student decrease in undergraduate headcount enrollment that resulted from a smaller freshmen class in fall 2014 and a large graduating class in spring 2014. The remaining one-third of the decline is attributed to a 51 student decrease in graduate enrollment that resulted from fewer students entering graduate and professional programs at Saint Mary's and nationwide. Graduate program enrollments tend to be countercyclical to the economy and recent declines have been ascribed to improving regional and national economies.

- *Total operating expenses excluding depreciation* totaled $124.3 million and increased by $4.2 million or 3.5% over the prior year's total. This increase is attributed to planned increases in faculty and staff compensation and to strategic expenditures including investments in programs and technology.

- *Increase (decrease) in net assets from operations (including depreciation)* totaled -$0.9 million and decreased by $4.6 million or 126.0% from the prior year's amount. This decrease is attributed to the growth in unrestricted operating expenses in excess of the growth in unrestricted operating revenues.

- *Change in total net assets from non-operating activities* totaled $4.4 million. This change is primarily attributed to capital gift contribution levels that offset negative changes in the valuation of the interest rate swap agreement caused by historically low long-term interest rates.

  The $4.4 million change in total net assets from non-operating activities is also much smaller than the $26.0 million change in the prior year that was driven by the appreciation of long-term investments. The negative impact of the Greek credit crisis on global equity valuations that began in June 2015 eliminated most of the increases in the market values of the College's long-term investments that had occurred over the past fiscal year. Despite this fiscal-year end decline in global equity valuations, the one year total return on the College's Endowment Pool investments of 4.1% exceeded the Investment Policy index return of 3.0%.

- *Net assets, end of year totaled* $239.6 million. This represents a $3.5 million or 1.5% increase and is attributed to the -$0.9 million decrease in net assets from operations (including depreciation) and to the $4.4 million change in net assets from non-operating activities.

Statement of Cash Flows

The statement of cash flows presents cash-related activities during the fiscal year and is segmented into operating, investing, and financing activities. The statement of cash flows also reconciles the beginning and end-of-year cash and cash equivalent balances contained in the balance sheet. Finally, the statement of cash flows presents the amount of cash paid for interest expense and the amount within accounts payable that represents construction in progress.

Significant changes in the statement of cash flows include:

- *Change in cash and cash equivalents* reflect a decrease of $8.1 million over the prior year's ending cash and cash equivalents amount of $11.0 million to the current year's ending cash and cash equivalents amount of $2.9 million. This decrease is primarily attributed to the completion of the construction of the Alioto Recreation Center and lower levels of cash in the Endowment Fund related to investing activities.

- *Cash paid for interest* totaled $2.8 million. This reflects a decrease of $0.3 million from the prior year that can be attributed to the lower interest rates related to a restructuring of the College's long-term debt that occurred in June 2014 as well as a lower interest rate environment.

- *Construction in progress included in accounts payable* totaled $0.7 million. This reflects a decrease of $3.9 million from the prior year and is primarily attributed to the completion of construction of the Joseph L. Alioto Recreation Center.

Notes to Financial Statements

The notes to financial statements provide information about the nature of the College, the basis of the presentation of the financial statements, significant accounting policies of the College, and explanatory information about certain items in the financial statements.

There are several changes in the notes to financial statements worthy of mention. There is a new note *(2) (p) Concentrations* that describes the College's exposure to credit risk through its primary banking relationship and to the risk of decreased levels of support from state and federal student assistance programs. There is another new note *(2) (t) New Accounting Pronouncement Not Yet Effective* that will impact the way in which the College accounts for revenue from contracts with customers. Finally, there is an addition to note *(6) Notes Receivable, Net* that indicates that the Federal Perkins Loan Program is set to expire in September 2015 unless renewed by Congress and the President of the United States.

Summary and Outlook

As noted above, the fiscal year ended June 30, 2015 presented challenges related to increasingly competitive student recruitment environments at the undergraduate and graduate levels as well as challenges related to declines in the valuations of global equities. Despite these challenges, the College was able to continue to grow its net assets to an all-time high of $239.6 million as of June 30, 2015 through purposeful expenditure management, targeted investments in programs and facilities, and the diversification of Endowment Pool investments.

The fiscal year that ended June 30, 2015 also marked the completion of a new institutional strategic plan for Saint Mary's College. The six strategic goals outlined in the plan will be implemented over the next five years and should further secure the financial position of Saint Mary's College and enable it to achieve its vision of becoming the leading Catholic comprehensive university in the western United States.

Respectfully submitted,

Peter A. Michell
Vice President for Finance and Treasurer

Baker Tilly Virchow Krause, LLP
225 S Sixth St, Ste 2300
Minneapolis, MN 55402-4661
tel 612 876 4500
fax 612 238 8900
bakertilly.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Saint Mary's College of California
Moraga, California

We have audited the accompanying financial statements of Saint Mary's College of California (the "College"), which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saint Mary's College of California as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The "Report from the Vice President for Finance and Treasurer" on pages 1 - 3, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 30, 2015

SAINT MARY'S COLLEGE OF CALIFORNIA

Balance Sheets

As of June 30, 2015 and 2014

Assets	**2015**	**2014**
Current assets:		
Cash and cash equivalents	$ 2,872,180	$ 11,034,899
Investments (note 3)	298	358
Student receivables, net	1,089,463	1,097,069
Contributions receivable, net (note 5)	814,445	605,972
Accounts receivable - other	1,379,001	2,310,955
Prepaid expenses, and other	1,964,275	2,340,045
Total current assets	8,119,662	17,389,298
Noncurrent assets:		
Cash restricted for interest rate swap collateral (note 10)	10,110,000	8,230,000
Investments (note 3)	171,036,226	170,370,655
Contributions receivable, net (note 5)	11,042,764	12,394,732
Notes receivable, net (note 6)	1,923,715	2,040,325
Other assets	2,320,779	2,392,375
Property, plant and equipment, net of accumulated depreciation (note 7)	139,055,645	130,490,983
Total noncurrent assets	335,489,129	325,919,070
Total assets	$ 343,608,791	$ 343,308,368
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 7,826,456	$ 11,321,471
Interest rate swap liability (note 10)	15,168,492	13,737,665
Current portion of long-term debt (note 9)	1,645,324	1,611,412
Deferred revenue	6,573,870	6,189,298
Total current liabilities	31,214,142	32,859,846
Noncurrent liabilities:		
Liabilities under trust agreements (note 2 (j))	1,799,735	1,975,275
Long-term debt, excluding current portion (note 9)	62,253,653	63,898,977
Post retirement benefits payable (note 11)	4,277,848	4,418,291
Asset retirement obligations (note 2(r))	2,794,707	2,421,955
Federal government grants refundable (note 6)	1,708,853	1,669,359
Total noncurrent liabilities	72,834,796	74,383,857
Total liabilities	104,048,938	107,243,703
Net assets:		
Unrestricted:	94,927,136	85,761,146
Temporarily restricted	45,212,696	54,358,882
Permanently restricted	99,420,021	95,944,637
Total net assets	239,559,853	236,064,665
Total liabilities and net assets	$ 343,608,791	$ 343,308,368

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA

Statement of Activities

For the Year Ended June 30, 2015

With Comparative Totals for 2014

	2015				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Totals**	**2014 Totals**
Operating:					
Revenues and gains:					
Tuition and fees	$ 138,769,140	$	$	$ 138,769,140	$ 139,543,939
Less financial aid	(44,172,779)			(44,172,779)	(43,839,035)
Net tuition and fees	94,596,361			94,596,361	95,704,904
Sales and services of auxiliary enterprises	21,285,919			21,285,919	20,724,524
Grant and contract revenue	701,169	394,667		1,095,836	1,069,642
Contributions	1,765,903	1,887,475		3,653,378	3,577,853
Endowment income and realized gains distributed	6,556,553			6,556,553	6,257,956
Other	2,299,033	361,549		2,660,582	2,725,182
Total operating revenues and gains	127,204,938	2,643,691		129,848,629	130,060,061
Net assets released from restrictions	1,873,032	(1,873,032)			
Total operating revenue, gains, and other support	129,077,970	770,659		129,848,629	130,060,061
Expenses:					
Instruction	48,208,755			48,208,755	46,528,342
Academic support	10,486,578			10,486,578	9,778,541
Student services	18,756,263			18,756,263	17,318,710
Institutional support	25,699,514			25,699,514	25,898,663
Operations and maintenance of plant	8,653,854			8,653,854	8,112,978
Interest expense	2,832,238			2,832,238	3,140,179
Auxiliary enterprises	9,695,206			9,695,206	9,305,658
Total operating expenses excluding depreciation	124,332,408			124,332,408	120,083,071
Increase in net assets from operations before depreciation expense	4,745,562	770,659		5,516,221	9,976,990
Depreciation expense	6,465,043			6,465,043	6,323,214
Increase (decrease) in net assets from operations	(1,719,481)	770,659		(948,822)	3,653,776
Nonoperating:					
Contributions	126,229	2,186,119	3,459,240	5,771,588	6,917,380
Net gain (loss) and income on endowments, net of distributions	645,428	(451,364)		194,064	19,197,047
Net gain (loss) and income on other investments	(7,045)	2,866		(4,179)	14,005
Unrealized loss on interest rate swap	(1,430,827)			(1,430,827)	(236,849)
Write off construction in progress/loss on disposal of assets	(102,109)			(102,109)	(179,797)
Actuarial adjustments		(671)	16,144	15,473	248,444
Net assets released from restrictions	11,653,795	(11,653,795)			
Increase (decrease) from nonoperating activities	10,885,471	(9,916,845)	3,475,384	4,444,010	25,960,230
Change in net assets	9,165,990	(9,146,186)	3,475,384	3,495,188	29,614,006
Net assets, beginning of year	85,761,146	54,358,882	95,944,637	236,064,665	206,450,659
Net assets, end of year	$ 94,927,136	$ 45,212,696	$ 99,420,021	$ 239,559,853	$ 236,064,665

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA

Statement of Activities

For the Year Ended June 30, 2014

	2014			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Totals**
Operating:				
Revenues and gains:				
Tuition and fees	$ 139,543,939	$	$	$ 139,543,939
Less financial aid	(43,839,035)			(43,839,035)
Net tuition and fees	95,704,904			95,704,904
Sales and services of auxiliary enterprises	20,724,524			20,724,524
Grant and contract revenue	665,551	404,091		1,069,642
Contributions	1,947,922	1,629,931		3,577,853
Endowment income and realized gains distributed	6,257,956			6,257,956
Other	2,492,893	232,289		2,725,182
Total operating revenues and gains	127,793,750	2,266,311		130,060,061
Net assets released from restrictions	2,056,401	(2,056,401)		
Total operating revenue, gains, and other support	129,850,151	209,910		130,060,061
Expenses:				
Instruction	46,528,342			46,528,342
Academic support	9,778,541			9,778,541
Student services	17,318,710			17,318,710
Institutional support	25,898,663			25,898,663
Operations and maintenance of plant	8,112,978			8,112,978
Interest expense	3,140,179			3,140,179
Auxiliary enterprises	9,305,658			9,305,658
Total operating expenses excluding depreciation	120,083,071			120,083,071
Increase in net assets from operations before depreciation expense	9,767,080	209,910		9,976,990
Depreciation expense	6,323,214			6,323,214
Increase in net assets from operations	3,443,866	209,910		3,653,776
Nonoperating:				
Contributions		3,607,587	3,309,793	6,917,380
Net gain and income on endowments, net of distributions	5,309,788	13,887,259		19,197,047
Net gain and income on other investments	6,004	8,001		14,005
Unrealized loss on interest rate swap	(236,849)			(236,849)
Write off construction in progress	(179,797)			(179,797)
Actuarial adjustments			248,444	248,444
Net assets released from restrictions	10,379,028	(10,379,028)		
Increase from nonoperating activities	15,278,174	7,123,819	3,558,237	25,960,230
Change in net assets	18,722,040	7,333,729	3,558,237	29,614,006
Net assets, beginning of year	67,039,106	47,025,153	92,386,400	206,450,659
Net assets, end of year	$ 85,761,146	$ 54,358,882	$ 95,944,637	$ 236,064,665

See accompanying notes to financial statements.

SAINT MARY'S COLLEGE OF CALIFORNIA
Statements of Cash Flows
As of and for the Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ 3,495,188	$ 29,614,006
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	6,465,043	6,323,214
Amortization of issuance costs	71,596	71,357
Actuarial adjustment of annuities payable	(15,473)	(248,445)
Net gain on investments and other assets	(6,686,891)	(25,587,559)
Noncash gifts received (stock)	(346,210)	(166,478)
Loss from interest rate swap	1,430,827	236,849
Changes in operating assets and liabilities:		
Student receivables, net	7,606	130,349
Contributions receivable	(208,473)	(78,066)
Accounts receivable - other	931,954	(702,059)
Prepaid expenses, and other assets	375,770	48,590
Accounts payable and accrued liabilities	769,175	(321,111)
Post retirement liability	(107,443)	158,988
Deferred revenue	384,572	(387,087)
Liabilities under trust agreements	(39,407)	(11,456)
Contributions restricted for plant and long-term investment	(5,771,588)	(6,917,380)
Net cash flows from operating activities	756,246	2,163,712
Cash flows from investing activities:		
Capital expenditures	(19,056,249)	(12,041,007)
Purchases of investments	(37,946,175)	(10,378,675)
Proceeds from sales of investments	44,549,547	19,450,134
Disbursement of loans to students	(307,812)	(568,881)
Repayments of loans from students	424,422	388,785
Net cash flows from investing activities	(12,336,267)	(3,149,644)
Cash flows from financing activities:		
Change in refundable government grants, net	39,494	(15,797)
Change in cash restricted for interest rate swap collateral	(1,880,000)	(400,000)
Payments on long-term debt	(1,611,412)	(1,611,249)
Payments to annuitants	(115,052)	(134,551)
Increase in annuities payable from new gifts	41,836	
Matured annuity	(181,120)	
Contributions received for plant and long-term investment	7,123,556	5,877,685
Net cash flows from financing activities	3,417,302	3,716,088
Change in cash and cash equivalents	(8,162,719)	2,730,156
Beginning cash and cash equivalents	11,034,899	8,304,743
Ending cash and cash equivalents	$ 2,872,180	$ 11,034,899
Supplementary cash flow information:		
Cash paid for interest	$ 2,757,701	$ 3,091,313
Noncash investing and financing activities		
Construction in progress included in accounts payable	681,945	4,606,383

See accompanying notes to financial statements.

(1) Nature of Organization

Saint Mary's College of California (the "College") is an independent Liberal Arts, Catholic, and Lasallian institution of higher education that is operated by the Brothers of the Christian Schools (Christian Brothers), the oldest religious order in the Catholic Church devoted exclusively to teaching. Chartered by the State of California in 1872 and operated continuously since that date, the College is among the oldest colleges in the West. The College grants associate, baccalaureate, and masters degrees in liberal arts, science, business administration, and education, including a doctorate in education. The College is classified as a Masters I (comprehensive) institution by the Carnegie Commission on Higher Education. Student headcount enrollment in fall 2014 and 2013 totaled 3,317 and 3,490 full-time and 792 and 767 part-time students, respectively.

(2) Basis of Presentation and Summary of Significant Accounting Policies

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Net assets and changes therein are classified as follows:

- *Permanently restricted net assets* – Net assets subject to donor-imposed restrictions that they be maintained permanently by the College. The College's permanently restricted net assets are endowment funds invested to support scholarships and various academic programs.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed restrictions that may or will be met by actions of the College and/or the passage of time. As of June 30, 2015 and 2014, $42,899,318 and $42,819,328 was restricted to operating activities and $2,313,378 and $11,539,554 was restricted to the acquisition of long-lived assets, respectively.
- *Unrestricted net assets* – Net assets not subject to donor-imposed restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is limited by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e., the donor-restricted purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at a discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

(a) Temporarily Restricted Net Assets

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted revenues.

Contributions of property, plant, and equipment without donor restrictions concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property, plant, and equipment are reported as temporarily restricted revenues. The restrictions are considered to be released as the asset is constructed or if purchased, when it is placed in service.

(b) Asset Classification

Current assets are used to designate cash and other assets that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the College.

Noncurrent assets are used to designate such resources as (a) cash and claims to cash, which are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets, or are segregated for the liquidation of long-term debts; (b) receivables which are not expected to be collected within twelve months; (c) land and other natural resources; (d) depreciable assets; and (e) long-term prepayments which are fairly chargeable to the operations of several years, or deferred charges such as unamortized debt issuance costs. Contributions receivable including amounts due within the next year, related to property, plant and equipment and endowments are included in this classification.

(c) Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. For purposes of the statement of cash flows, the College considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) Prepaid Expenses and Other

Prepaid expenses consist of dues, travel fees paid for semester abroad programs, and other expenses whose benefit will be realized in the next fiscal year.

(e) Investments

Investments designated for use in acquiring property, plant, and equipment, true endowment gifts (including expendable realized gains), funds functioning as endowment, and annuity and life income trusts have been classified as noncurrent in the accompanying balance sheet.

Expendable investments, including designated unrestricted have been classified as current in the accompanying balance sheet.

(f) Student Receivables, Net

Student receivables are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts was $171,000 as of June 30, 2015 and 2014, and is based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are expensed when deemed uncollectible. Receivables are generally unsecured. A student account receivable is considered delinquent if not paid by the due date. A monthly service fee is charged on delinquent amounts.

(g) Other Assets

The issuance costs of bonds and bond discounts are included in other assets. They are deferred and amortized on a basis that approximates the level-yield method over the repayment period of the bonds.

(h) Property, Plant, and Equipment, Net

Property, plant, and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts-in-kind. The College capitalizes property, plant and equipment additions of $10,000 to $50,000, depending on the type of addition. Cost includes the related net interest expense incurred on funds borrowed for construction of facilities. Depreciation is provided on equipment using the straight-line method over the estimated useful lives ranging from 3 to 5 years. Depreciation is provided for longer-lived equipment using the straight-line method over the estimated useful lives ranging from 5 to 10 years. Depreciation was provided on buildings and improvements using the straight-line method over useful lives ranging from 10 to 30 years, and up to 50 years for buildings placed in service after 2000.

(i) Deferred Revenue

Deferred revenue represents payments received, primarily tuition, which will be earned in the following year.

(j) Liabilities Under Trust Agreements

The College uses the actuarial method of recording annuity and life income contracts and agreements. Under this method, the asset is recorded at fair value when a gift is received and is included in Noncurrent Investments. The present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables and the remainder is recorded as a contribution in the appropriate net asset category. The liability account is credited with investment income and gains and is charged with investment losses and payments to beneficiaries.

Periodic adjustments are made between the liability account and the net asset account for actuarial gains and losses. The actuarial liability is based on the present value of future payments discounted at rates ranging from 4.0% - 7.1% and on estimated lives according to the applicable mortality tables.

The College is subject to additional legally mandated annuity reserve requirements by the State of California on its California gift annuity contracts. As of June 30, 2015 and 2014, the College's investment of the annuity reserve accounts is in compliance with these regulations. In addition, total assets recorded on the balance sheet related to these agreements totaled $2.7 million and $3.1 million for the years ended June 30, 2015 and 2014, respectively.

(k) Works of Art, Historical Treasures, and Similar Assets

Contributions of works of art, historical treasures, and similar assets held as part of a collection, for education, research, or public exhibition rather than for sale, are not recognized or capitalized. Significant contributions of works of art, historical treasures, and similar assets not held as part of a collection are recorded as revenue and assets at their estimated fair value at the date of receipt based upon appraisals or similar valuations.

(l) Unemployment Self-Insurance

The College reimburses applicable States for actual unemployment benefits paid resulting from previous employment with the College in lieu of making regular contributions to the State based on wages and salaries.

(m) Federal and State Income Tax

The College qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is exempt from federal and state income taxation on related sources of income. The College is, however, subject to federal and state income tax on unrelated business income and an appropriate provision for any such taxes is included in the accompanying financial statements.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of June 30, 2015 and 2014. The College's tax returns are subject to review and examination by federal and state authorities. The tax returns for fiscal 2012 and thereafter are open to examination by federal and state authorities.

(n) Value of Financial Instruments Not Carried at Fair Value

The carrying amounts of cash, accounts, notes and other receivables, and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

The carrying value of annuities payable, reported on the balance sheet as 'Liabilities under trust agreements', related to split interest agreements is based on a discounted cash flow methodology using assumptions about estimated return on invested assets during the term of the agreement, the contractual payment obligations of the agreement, discount rates that are commensurate with the risks involved, and life expectancies published in the mortality tables. The fair value of the annuities payable approximates carrying value. If annuities payable related to gift annuities and annuity trusts were recorded at fair value, they would be considered Level 2 in the fair value hierarchy. If annuities payable related to unitrusts were recorded at fair value, they would be considered Level 3 in the fair value hierarchy.

(o) Use of Estimates

Management of the College has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(p) Concentrations

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable and notes receivable. Cash and cash equivalents in excess of FDIC and similar coverages is subject to the usual risks of balances in excess of those limits. The majority of the College's cash and cash equivalents are on deposit with a single bank. Investments are diversified in order to limit credit risk. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the Northwestern United States. In addition, the College's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by government agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's program and activities.

(q) Tuition and Fees and Auxiliary Revenues

Tuition revenue is recognized in the period during which the related academic services are rendered. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

(r) Asset Retirement Obligations

Asset retirement obligations are estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related asset retirement costs were recorded as decreases in unrestricted net assets. The asset retirement obligation is recorded as a noncurrent liability on the balance sheet. The estimated asset retirement obligation is determined annually at June 30 to reflect remediation efforts as well as to reflect updated costs for abatement.

(s) Reclassifications

Certain prior year amounts have been reclassified to conform with the June 30, 2015 financial statement presentation. These reclassifications, however, had no effect on total net assets or change in net assets.

(t) New Accounting Pronouncement Not Yet Effective

In May 2014, new accounting guidance was issued that outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. This guidance is effective for the College's fiscal year ending June 30, 2019. The College is assessing the impact this guidance will have on its financial statements.

(u) Subsequent event review

The College has evaluated subsequent events through September 30, 2015 which is the date that the financial statements were issued.

(3) Fair Value of Financial Instruments

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three level hierarchy is used for fair value measurements which is based upon the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories. There have been no changes in the techniques and inputs used at June 30, 2015 and 2014.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities, that the reporting entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market corroborated inputs.

Level 3 - Inputs are unobservable for the assets or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

a) Assets

Level 1 - Level 1 assets include investments in cash and short term equivalents, comprised primarily of money market funds; fixed income securities, comprised of US Treasury notes, mortgage backed securities, municipal and corporate bonds; U.S. and non-U.S equity securities that are actively traded and mutual funds.

Level 2 - Level 2 assets include investments in U.S. and non-U.S. equity securities, as well as fixed income securities, comprised of commingled funds which are not actively traded; however the underlying assets are marketable. Net asset values are available for these securities and the College has the ability to redeem its investments at the net asset value in the near term.

Level 3 - Level 3 assets include investments in private equity funds and real estate funds for which quoted prices are not readily available and the funds cannot be redeemed within a short time. The College has estimated the fair value of these funds by using the net asset value provided by the investee.

(b) Liabilities

Level 2 - Level 2 liabilities include interest rate swap agreements as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

	Total	Level 1	Level 2	Level 3
ASSETS				
Cash and short term equivalents	$ 521,877	$ 521,877	$	$
Fixed income securities	41,298,213	25,521,120	15,777,093	
U.S. equity securities	52,194,606	24,591,783	27,602,823	
Non-U.S. equity securities	45,577,113		45,577,113	
Mutual funds	1,967,114	1,967,114		
Private equity	13,396,052			13,396,052
Real estate	16,081,549	26,474	6,378,528	9,676,547
Total	$ 171,036,524	$ 52,628,368	$ 95,335,557	$ 23,072,599
LIABILITIES				
Interest rate SWAP	$ 15,168,492	$	$ 15,168,492	$

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2014:

	Total	Level 1	Level 2	Level 3
ASSETS				
Cash and short term equivalents	$ 2,779,547	$ 2,779,547	$	$
Fixed income securities	32,868,698	20,519,442	12,349,256	
U.S. equity securities	51,583,560	24,459,824	27,123,736	
Non-U.S. equity securities	52,193,425	643,021	51,550,404	
Mutual funds	2,015,511	2,015,511		
Private equity	13,157,869			13,157,869
Real estate	15,772,403	34,422	5,947,135	9,790,846
Total	$ 170,371,013	$ 50,451,767	$ 96,970,531	$ 22,948,715
LIABILITIES				
Interest rate SWAP	$ 13,737,665	$	$ 13,737,665	$

While the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Private Equity	Real Estate
Balances, July 1, 2014	$ 13,157,869	$ 9,790,846
Net gains (realized and unrealized) included in change in net assets	1,997,214	1,291,070
Purchases	966,515	778,159
Sales	(2,725,546)	(2,183,528)
Balances, June 30, 2015	$ 13,396,052	$ 9,676,547

	Private Equity	Real Estate
Balances, July 1, 2013	$ 11,753,748	$ 4,706,974
Net gains (realized and unrealized) included in change in net assets	1,423,458	912,922
Purchases	777,577	4,429,209
Sales	(796,914)	(258,259)
Balances, June 30, 2014	$ 13,157,869	$ 9,790,846

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at June 30, 2015 and 2014 are $2,597,341 and $2,735,310, respectively.

The fair value of certain funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the fund. Accounting guidance allows for the use of the NAV as a "practical expedient" estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the College's interest in the fund. If the College does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term the investments are categorized as Level 3 instruments.

The following table lists the investments in alternative investments by major category:

	Private Equity	Real Estate
Fair value, June 30, 2015	$ 13,396,052	$ 9,676,547
Significant investment strategy	Primarily buyout, Venture, and growth equity in US	US real estate
Remaining life	3 to 10 years	1 to 10 years
Dollar amount of unfunded commitments	$ 4,268,668	$ 132,645
Timing to draw down commitments	1 to 5 years	1 to 5 years
Redemption terms	N.A.	N.A.

(4) Investment Income

The following schedule summarizes the investment return during 2015 and 2014 and its classification on the statement of activities:

	2015	2014
Investment income, net of investment expenses of $579,253 and $603,098, respectively	$ 2,679,256	$ 1,950,131
Net gain on investments and other assets	4,067,182	23,518,877
Total return on investments	$ 6,746,438	$ 25,469,008
Operating		
Endowment income and realized gains distributed	$ 6,556,553	$ 6,257,956
Nonoperating		
Net gains and income on endowments, net of distributions	194,064	19,197,047
Net gains (losses) and income on other investments	(4,179)	14,005
Total return on investments	$ 6,746,438	$ 25,469,008

(5) Contributions Receivable, Net

The carrying value of contributions receivable is based on a discounted cash flow methodology using discount rates consistent with the expected maturities of the pledges, adjusted for consideration of the donor's credit. The fair value of contributions receivable approximates carrying value and would be considered Level 3 in the fair value hierarchy if recorded at fair value. Contributions receivable, net of discount to present value are due to be collected as follows:

	2015	2014
Current, net of discount	$ 814,445	$ 605,972
Noncurrent		
Receivables designated/restricted for acquiring property, plant and equipment, net of discount	10,151,640	11,004,668
Endowment receivables, net of discount	891,124	1,390,064
Total noncurrent	11,042,764	12,394,732
	$ 11,857,209	$ 13,000,704

Gross amounts due in:	
Less than one year	$ 4,434,213
One to five years	6,870,996
More than five years	1,165,000
Total contributions receivable	12,470,209
Less discount to present value	(613,000)
	$ 11,857,209

Gross contributions receivable of $8.2 million and $9.2 million as of June 30, 2015 and 2014, respectively, were due from four donors.

(6) Notes Receivable, Net

Notes receivable, net as of June 30, 2015 and 2014 consisted of the following:

	2015	2014
Federal Perkins loan program	$ 2,508,715	$ 2,625,325
Less allowance for doubtful accounts	(585,000)	(585,000)
Student loans receivable, net	$ 1,923,715	$ 2,040,325

The objective of the Federal Perkins Loan Program is to provide long-term, uncollateralized, low-interest loans to students who demonstrate the need for financial aid to pursue their courses of study. A revolving loan fund is established by federal government grants and institutional matching contributions. A liability is established on the balance sheet for the net assets of this program refundable to the federal government. The Federal Perkins Loan Program notes which bear interest at 3% to 5% are payable over approximately 11 years.

After a student is no longer enrolled in an institution of higher education and after a grace period, the student is responsible for monthly debt service payments. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late fees are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2015 and 2014, student loans represented .6% of total assets.

Funds advanced by the Federal government of approximately $1.7 million at June 30, 2015 and 2014 are ultimately refundable to the government and are classified as liabilities on the statement of financial position.

At June 30, 2015 and 2014, the following amounts were past due under student loan programs:

	Amounts Past Due			
June 30,	1 - 60 days	60 - 90 days	90+ days	Total
2015	$ 65,213	$ 66,885	$ 302,198	$ 434,296
2014	77,576	70,380	343,106	491,062

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designee.

Unless Congress takes action to extend the Federal Perkins Loan Program, the Program is set to expire in September 2015. The Department of Education (ED) issued guidance in January 2015, which addressed the grandfathering of Perkins loans for students who received loans prior to June 30, 2015. According to the guidance issued by ED, if these students meet certain conditions, they will still be able to receive Perkins loans until 2020 to allow them to "continue or complete their courses of study". However, Perkins loans may not be made to "new borrowers" for whom the first disbursement of a Federal Perkins loan will occur on or after October 1, 2015. Other issues, including the settlement of school revolving funds and outstanding loan portfolios, still need to be addressed. The College is monitoring this issue and is currently assessing the impact on its financial statements.

(7) Property, Plant, and Equipment, Net of Accumulated Depreciation

Property, plant, and equipment, net as of June 30, 2015 and 2014 consisted of the following:

	2015	2014
Land	$ 1,336,000	$ 1,336,000
Land improvements	17,022,871	16,975,997
Buildings and building improvements	201,716,497	176,598,413
Furniture, fixtures and equipment	20,675,849	18,609,723
Vehicles	1,209,702	1,258,975
Construction in progress	2,910,487	17,214,003
	244,871,406	231,993,111
Less accumulated depreciation	(105,815,761)	(101,502,128)
	$ 139,055,645	$ 130,490,983

(8) Note Payable to Bank

The College has two revolving lines of credit with Bank of America. One is in the amount of $10 million for operating cash flow purposes and advances bear interest at the BBA LIBOR daily rate plus 1.14%. This line of credit is available through October 3, 2015. As of June 30, 2015, the College had not drawn on this line and had reserved $730,000 as a Stand by Letter of Credit in support of the high deductible insurance program for the College's workers compensation plan. Subsequent to June 30, 2015, the line of credit was extended to January 3, 2016.

The second line of credit is in the amount of $6 million for interest rate swap collateral purposes. Advances bear interest at the BBA LIBOR daily floating rate plus 1.14%. This line of credit is available through October 3, 2017 with annual reductions of $2 million. As of June 30, 2015, the College had not drawn on this line.

(9) Long-Term Debt

Long-term debt as of June 30, 2015 and 2014 consisted of the following:

	2015	2014
Note payable to bank - interest at the 360-day LIBOR plus 0.75% (1.37% as of June 30, 2015) due in annual payments of $105,000 plus interest through February 1, 2020, secured by $525 thousand contribution receivable	$ 525,000	$ 630,000
California Educational Facilities Authority 2007 Revenue Bonds - interest reset monthly (.93% at June 30, 2015), under terms of a five year Direct Purchase agreement with Bank of America Public Capital Corporation. The bonds are outstanding through 2043	62,900,000	64,075,000
California Educational Facilities Authority 2007 Master Lease with option to purchase agreement - 3.94%, secured by underlying equipment, due through 2017	473,977	805,389
Total long-term debt	63,898,977	65,510,389
Less current portion	1,645,324	1,611,412
	$ 62,253,653	$ 63,898,977

The carrying value of long-term debt net of issuance costs of bonds and bond discounts is $61,915,047 and $63,454,862 as of June 30, 2015 and 2014, respectively. The carrying amount of variable rate long term debt approximates fair value because these financial instruments bear interest rates which approximate current market rates for notes with similar maturities and credit quality. The fair value of variable rate debt is assumed to be equal to cost since the interest rates approximate current market rates. If recorded at fair value variable rate debt would be considered level 2 in the fair value hierarchy.

The College has a direct purchase agreement with Bank of America Public Capital Corporation for the CEFA 2007 bonds that have a maturity date of October 2, 2019. As a result of the agreement, the interest on the bonds is adjusted monthly based upon the monthly LIBOR rate plus .80%. The Bonds are secured by an unrestricted gross revenue pledge of the College. On or prior to the expiration of the current agreement, the College anticipates it would enter into a new direct purchase agreement, convert the bonds into another mode under the bond documents, or redeem the bonds with refunding debt.

Aggregate future long-term debt principal payments as of June 30, 2015 are as follows:

Year Ending June 30:		
2016	$	1,645,324
2017		1,538,653
2018		1,430,000
2019		1,480,000
2020		1,530,000
Subsequent		56,275,000
	$	63,898,977

The CEFA Series 2007 bond agreements contain various covenants, which include maintenance of certain financial ratios, as defined in the agreements. The College was in compliance with all covenants as of June 30, 2015.

(10) Interest Rate Swap

The College has issued variable-rate demand bond (VRDB) debt to finance the construction and renovation of buildings and to defease the CEFA 2003 bonds. These debt obligations expose the College to fluctuations in interest payments due to the changes in interest rates. In an effort to manage the fluctuations in cash flows resulting from interest rate risk, the College entered into an interest rate swap.

Under the interest rate swap, the College receives variable interest rate payments that partially hedge the variable interest rate debt, and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. The net swap payments (receipts) are recorded in interest expense. In July, 2008, the College amended a 36-year swap from Bank of New York Mellon originated in August, 2007 at a fixed rate of 3.546% on the then $70,275,000 of outstanding variable rate debt. There was no cash exchanged at the time the College entered into the swap due to the relationship between the variable rates and swap rate at that time. The notional amount of this swap equals the current outstanding debt of the respective issuance.

Changes in the fair market value of the interest rate swap are reported as unrealized gains or losses on the interest rate swap related to bonds on the statement of activities. The valuations of the swap resulted in an unrealized loss of $1,430,827, and $236,849 as of June 30, 2015 and 2014, respectively. The liability related to the interest rate swap agreement of $15,168,492 and $13,737,665 at June 30, 2015 and 2014, respectively, is reported on the statement of financial position in current liabilities. Providing that the College holds the swap to maturity, the value of the derivative will be zero. This swapping transaction can be terminated at market rates at any time during the term of the swap. The College is also required to post collateral if the swap agreement valuation exceeds a liability of $5,000,000. At June 30, 2015, the value of the collateral posted was $10,110,000.

(11) Retirement Plan and Postretirement Benefits

Retirement Plan - The College participates in the Teachers Insurance Annuity Association (TIAA) and the College Retirement Equity Fund (CREF) defined contribution retirement plans that cover substantially all full-time employees of the College. TIAA is a legal reserve life insurance and annuity company and CREF is a corporate companion to TIAA. Annual contributions, as determined by the Board of Trustees, were 8.25% of all eligible employees' wages and salaries for the years ended June 30, 2015 and 2014. Total College contributions were approximately $4,558,000 and $4,357,000 for the years ended June 30, 2015 and 2014, respectively.

Voluntary Employees Benefit Association Plan - Effective July 2007, the College joined Emeriti Retirement Health Solutions (EMERITI), a consortium of colleges and universities organized to provide retiree health care benefits through a Voluntary Employees Benefit Association (VEBA) recognized under the IRC 501(c)(9). The Emeriti program is a defined contribution plan whose assets are restricted for use toward qualified medical expenses. All benefit eligible faculty and staff, hired after June 30, 2007 over the age of 40 participate in the plan. Benefit eligible employees hired before July 1, 2007, had the opportunity to enroll in the Emeriti plan in lieu of the College's existing retirement health programs. The College contributes a monthly fixed amount to an employer VEBA investment account with TIAA CREF for all plan participants and the total annual contribution to EMERITI was $552,089 and $532,674 for the years ended June 30, 2015 and 2014, respectively. Employees age 21 and above can also make post-tax contributions of any amount to an employee VEBA account. Employee contributions are immediately vested and contributions by the College are vested after five (5) years of continuous service. As of December 31, 2014, the plan assets totaled $7,250,648. These assets consisted of $6,975,503 of mutual funds and $275,145 of money market funds.

Postretirement Healthcare Plan - The College provides funds for healthcare benefits of eligible retirees (hired prior to July 1, 2007) for a period of 5 years after their date of retirement. In order to participate, benefits eligible employees must retire from the College at age fifty-five or older with at least 15 years of service. The College accrues the cost of the postretirement benefits during the service lives of employees. The plan is a recorded liability of the College, but does not have offsetting dedicated assets. The College therefore funds the benefits on a pay as you go basis.

The following sets forth the status of the plan and the accumulated postretirement benefit of obligation (APBO) as of June 30, 2015 and 2014:

	2015	2014
Change in projected APBO		
Benefit obligation at July 1	$ 4,675,291	$ 4,516,303
Service cost	168,659	229,656
Interest cost	216,221	225,954
Actuarial (gain) loss	57,761	(233,809)
Benefits paid	(550,084)	(62,813)
Total projected APBO at June 30	$ 4,567,848	$ 4,675,291
Amounts recognized in the Balance Sheet:		
Current liabilities	$ 290,000	$ 257,000
Non current liabilities	4,277,848	4,418,291
Total projected APBO	$ 4,567,848	$ 4,675,291

The following sets forth the status of the plan as of June 30, 2015 and 2014:

	2015	2014
Accumulated postretirement benefit of obligation (APBO)		
Retirees	$ 77,441	$ 100,273
Active employees	4,490,407	4,575,018
Total APBO	$ 4,567,848	$ 4,675,291

The components of net periodic postretirement benefit cost (NPPBC) for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Interest cost	$ 216,221	$ 225,954
Service cost	168,659	229,656
Amortization of unrecognized loss (ALG)	6,427	23,321
Net periodic postretirement benefit expense	$ 391,307	$ 478,931

The actuarial loss yet to be recognized in the net periodic postretirement benefit cost as of June 30, 2015 and 2014 are $304,754 and $253,420, respectively.

The assumed healthcare cost trend rates range from a high of 8.00% in FYE 2015 to a low of 4.65% by FYE 2020. A one percentage point increase in the assumed healthcare cost trend rate for each year would increase the accumulated postretirement benefit obligation as of June 30, 2015 by approximately 13%. The assumed discount rate used in determining the net periodic postretirement benefit cost, as well as the accumulated postretirement benefit obligation is 4.45% and 4.35% for 2015 and 2014, respectively.

Benefits expected to be paid in the next ten fiscal years are:

Year Ending June 30:	
2016	$ 290,000
2017	322,000
2018	466,000
2019	532,000
2020 - 2025	4,482,000
	$ 6,092,000

It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material impact on the financial statements.

(12) Expenses by Function

Expenses by functional classification after allocating operation and maintenance of plant, depreciation expense, interest expense, and separating fundraising are as follows for the years ended June 30:

	2015	2014
Instruction	$ 54,098,890	$ 52,448,251
Academic support	11,549,957	10,978,901
Student services	20,812,802	19,358,497
Institutional support	24,451,533	23,974,417
Auxiliary enterprise	14,453,804	13,807,314
Fundraising	5,430,464	5,838,905
Expenses by function	$ 130,797,451	$ 126,406,285

(13) Related Party Transactions

As of June 30, 2015 and 2014, $1,067,000 and $1,146,000, respectively, of contributions receivable are due from members of the Board of Trustees and officers of the College.

(14) Commitments and Contingencies

The College is contingently liable in connection with claims and contracts, including those currently in litigation arising in the normal course of its activities. In the opinion of management, the results of these matters will not have a significant impact on the financial statements.

(15) Endowments

General - The College's endowment consists of approximately 326 individual funds established for a variety of purposes. Its endowment includes true endowment funds, funds functioning as endowments, and board reserves. True endowment funds are subject to the donor restrictions on gift instruments. These restrictions require that the principal be invested in perpetuity and that only the income and gains may be utilized. Funds functioning as endowment have been established by the Board of Trustees to address the same requirements of endowment funds. Board reserves have been established by the Board of Trustees as long-term reserves for operations. Funds functioning as endowment and board reserves differ from true endowment funds because any portion of these funds may be expended. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments or board reserves, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment investments are recorded at market value of $169,214,208 and $164,977,738 for the years ended June 30, 2015 and 2014, respectively. The total return on all investments held by the endowment funds, on a market basis, was 4.17% and 19.02% for the years ended June 30, 2015 and 2014, respectively.

Return Objectives and Risk Parameters - The College has adopted investment and spending policies for endowment assets that strive to provide a source of income for spending that is reasonably stable and predictable from year-to-year, while seeking to preserve capital, maintain the purchasing power of the endowment assets, and prudently earn the highest possible rate of return consistent with the College's ability to accommodate risk. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner to provide an average real total return of 5 percent, net of fees. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation including asset classes such as public equities, fixed income and alternative assets in order to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Board of Trustees designates only a portion of the College's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines.

In developing its spending policy, the College considers certain of the following factors which it determines relevant:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

The Board has adopted a policy to appropriate for distribution during each fiscal year an amount per endowment unit calculated at a rate no greater than 5.0% of the average endowment market value per endowment unit from the preceding 12 quarters established as of the end of the calendar year prior to the beginning of the fiscal year.

Interpretation of Relevant Law - The College's governing board has interpreted the California enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. See Note 1 for further information on net asset classifications.

Funds with Deficiencies - Because UPMIFA does not establish a fixed level below which an endowment fund is not permitted to fall, there are no deficiencies in the endowment funds held by the College. Notwithstanding the foregoing, the College does maintain records of the sum of: (a) the original value of gifts donated to each endowment fund, (b) the original value of subsequent gifts to each endowment fund, and (c) accumulations to each such endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The amounts by which certain individual endowment funds have fallen below such recorded values were $172,407 and $162,499 as of June 30, 2015 and 2014, respectively. These differences resulted from unfavorable market fluctuations that occurred after the investment of new contributions to endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

The Board adopted a modification to its spending policy for donor restricted endowment funds with deficiencies. Spending from these funds will be limited to actual income earned when their current market values fall below 75% of original gift values.

Endowment Net Asset Composition by Type of Fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ (172,407)	$ 38,539,167	$ 99,324,935	$ 137,691,695
Board-designated funds	30,113,012			30,113,012
Total funds	$ 29,940,605	$ 38,539,167	$ 99,324,935	$ 167,804,707

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 29,345,306	$ 39,078,933	$ 95,843,014	$ 164,267,253
Investment return:				
Investment income	1,240,332	1,432,019		2,672,351
Net appreciation (realized and unrealized)	1,336,225	2,742,040		4,078,265
Total investment return	2,576,557	4,174,059		6,750,616
Appropriation of endowment assets for expenditure:				
Operating	(1,842,728)	(4,713,825)		(6,556,553)
Nonoperating	(244,995)			(244,995)
Gifts	106,465		3,459,240	3,565,705
Actuarial adjustments on deferred gifts			22,681	22,681
Endowment net assets, end of year	$ 29,940,605	$ 38,539,167	$ 99,324,935	$ 167,804,707

Endowment Net Asset Composition by Type of Fund as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ (162,499)	$ 39,078,933	$ 95,843,014	$ 134,759,448
Board-designated funds	29,507,805			29,507,805
Total funds	$ 29,345,306	$ 39,078,933	$ 95,843,014	$ 164,267,253

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 24,128,706	$ 25,279,996	$ 92,288,819	$ 141,697,521
Investment return:				
Investment income	888,562	1,043,095		1,931,657
Net appreciation (realized and unrealized)	6,023,006	17,500,340		23,523,346
Total investment return	6,911,568	18,543,435		25,455,003
Appropriation of endowment assets for expenditure:				
Operating	(1,513,458)	(4,744,498)		(6,257,956)
Nonoperating	(181,510)			(181,510)
Gifts			3,309,793	3,309,793
Actuarial adjustments on deferred gifts			244,402	244,402
Endowment net assets, end of year	$ 29,345,306	$ 39,078,933	$ 95,843,014	$ 164,267,253