

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Otis College of Art and Design (Otis College)	Amount Requested:	Not to exceed \$35,000,000
Applicant Description:	A California nonprofit public benefit corporation operating since 1918 as Los Angeles's' first independent professional school of art and design.		
Type of Financing:	Tax-Exempt Obligation		
Project:	The project financing consists of (1) refunding Otis College's outstanding California Educational Facilities Authority Revenue Bonds (Pooled College and University Projects), 1999 Series B, (CEFA Bonds) for interest savings, (2) financing the cost of acquisition, construction, equipping and furnishing of the real property and improvements located on the college campus, and (3) paying certain costs of issuance in connection with the issuance of the tax-exempt obligations (Project).		
Project Site:	9045 Lincoln Boulevard, Los Angeles, CA 90045		
Plan of Finance:	The I-Bank will issue up to \$35 million in fixed rate tax-exempt obligations (Tax-Exempt Obligations) in a private placement to be purchased by a single qualified institutional buyer (QIB). The proceeds of the bonds will be used to refinance CEFA Bonds, pay costs of the project and pay costs of issuance.		
Type of Issue:	Private placement of fixed rate tax-exempt obligations with City National Bank, a QIB		
Tax Status:	Tax-exempt		
Term:	17 years		
Credit Rating:	None; credit rating requirement waived; private placement with a QIB exception is applicable.		
Fees:	App Fee \$1,500; Issuance Fee \$45,000 (STO \$3,500); Annual Fee \$500 per year		
Est. Sources of Funds:		Est. Uses of Funds:	
Tax Exempt Obligation	\$35,000,000	Refund CEFA Bonds	\$2,535,000
		New Project	32,277,500
		Cost of Issuance	187,500
TOTAL SOURCES	\$35,000,000	TOTAL USES	\$35,000,000
Financing Team:	Bond Counsel:	Kutak Rock	
	Borrower's Counsel:	Squire Sanders (US) LLP	
	Lender's Counsel:	Kutak Rock LLP	
	Private Placement Purchaser:	City National Bank	
Public Benefits:	By refunding the CEFA Bonds, Otis College estimates a present value savings of \$110,195. The financing will also provide low-cost funds for the construction of new academic space, auditorium, residential building, learning commons and other student services. Along with short term construction jobs, the college estimates that additional jobs will be created in food services, through third party vendors, student store and print shop jobs as well as additional maintenance, security and custodial positions for the expanded spaces and ancillary areas.		
Date of Board Meeting:	Resolution Number:	Prepared by:	
April 4, 2014	14-03	Jamie Teves-Fuentes	
Staff Recommendation: Staff recommends approval of Resolution 14-03 authorizing the issuance of Tax-Exempt Obligations in an amount not to exceed \$35,000,000 for the benefit of Otis College of Art and Design.			

BACKGROUND AND HISTORY

Founded in 1918, Otis College of Art and Design (Otis College) is Los Angeles's first professional school of art with a mission to prepare diverse students of art and design to enrich our world through their creativity, their skill, and their vision. The College offers Master of Fine Arts degrees in Fine Arts, Graphic Design, Public Practice, and Writing, and Bachelor of Fine Arts degrees in Architecture/Landscape/Interiors, Communication Arts (Advertising Design, Graphic Design, and Illustration), Digital Media, Fashion Design, and Toy Design. Continuing Education offers a wide range of art and design courses for over 2,500 students of all ages and abilities each year. The Ben Maltz Gallery both originates and participates in national touring exhibitions, serving 19,000 visitors each year.

Otis College has trained artists and designers who are in the vanguard of Southern California's cultural and entrepreneurial life. From Mattel to Pixar to the Museum of Modern Art in New York, the college graduates have made an individual, positive, and lasting mark on the world.

The five-acre main campus is located in Los Angeles's Westside near the beach. Fashion Design is downtown, in the heart of the fashion district. The graduate studios are on the creative corridor in nearby Culver City and in the 18th Street Arts Center in Santa Monica.

Otis College currently has an enrollment of 1,086 students. In 2012-2013 Otis College enrolled 1,156 students. Faculty consists of 55 full time faculty, 47 adjunct faculty, 381 part time faculty, 177 full time staff and 100 part time staff.

Tuition for the 2013-2014 year is \$38,380. In 2012-2013, approximately 1,000 students received financial aid (90% of enrolled students received financial aid).

Otis College is governed by Corporate Officers and a Board of Trustees (Board). See Attachment A – Governance and Management for a list of the members of the Board and Corporate Officers.

PROJECT DESCRIPTION

The project financing will consist of refunding approximately \$2,535,000 of Otis College's CEFA Bonds which will provide an approximate \$110,195 of present value savings. Calculation of Debt Service Savings by Year is shown in the chart below.

CEFA 1999B Pooled Colleges (Otis College)				
DEBT SERVICE SCHEDULE				
Updated for 01/18/2012 Optional Call				
DUE DATE	PRINCIPAL	RATE	INTEREST	BOND YEAR DEBT SERVICE
4/1/2014	385,000	5.125%	65,503.13	450,503.13
10/1/2014		5.125%	55,637.50	
4/1/2015	405,000	5.125%	55,637.50	516,275.00
10/1/2015		5.125%	45,259.38	
4/1/2016	425,000	5.125%	45,259.38	515,518.75
10/1/2016		5.125%	34,368.75	
4/1/2017	450,000	5.125%	34,368.75	518,737.50
10/1/2017		5.250%	22,837.50	
4/1/2018	470,000	5.250%	22,837.50	515,675.00
10/1/2018		5.250%	10,500.00	
4/1/2019	400,000	5.250%	10,500.00	421,000.00
TOTALS	2,535,000.00		402,709.38	

The project financing will also pay for the construction of nearly 30,000 gross square feet new academic space and the campus's first auditorium and nearly 60,000 gross square feet of the campus's first residential building and learning commons that will include the library, an advising and mentoring center, a student union, expanded dining options and other student services. The selected contractor is DPR Construction.

Construction is scheduled to begin January 2015 and is expected to be completed in Spring 2016.

PLAN OF FINANCE

Otis College requests approval for issuance of Tax-Exempt Obligations in an amount not to exceed \$35,000,000 to be used to (1) refund the CEFA in an aggregate principal amount of approximately \$2,535,000, (2) finance the cost of acquisition, renovation and equipping of the real property and improvements located at 9045 Lincoln Boulevard, Los Angeles, California, and (3) pay certain costs of issuance in connection with the issuance of Tax-Exempt Obligations and other related costs.

Otis College's obligation to repay City National Bank for the proceeds of the Tax-Exempt Obligation is expected to be secured by collateral including, but not limited to, a deed of trust on Otis College's real property and a security interest in certain of Otis College's personal property assets. As part of the financing, the I-Bank will assign all rights to the aforementioned collateral to City National Bank. Furthermore, the I-Bank will assign its right to receive the loan payments from Otis College, except for certain Reserved Issuer Rights, to City National Bank pursuant to a loan agreement between the I-Bank, Otis College and City National Bank (Loan Agreement).

The Tax-Exempt Obligations are to be sold in a private placement with City National Bank and the proceeds will then be loaned to Otis College pursuant to the Loan Agreement. The Loan Agreement will have a stated term of 17 years with an expected initial fixed interest rate not to exceed 5 percent.

The Tax-Exempt Obligations will be purchased by City National Bank, and thus constitute a private placement. In order to meet the I-Bank's requirements for private placements, City National Bank must provide a sophisticated investor letter (Letter) at closing certifying, among other things, that: (i) it is a QIB, as defined in Section 144(A) of the Securities Act of 1933, as amended, (ii) it has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Tax-Exempt Obligations and that it is able to bear the economic risks of such investment; and (iii) it agrees to comply with the provisions in the Loan Agreement that prohibit the sale of City National Bank's interest in the Tax-Exempt Obligations except to another QIB, as well as provisions that impose minimum denomination requirements.

Otis College will be required by City National Bank to maintain the following financial covenants:

- Maintain a debt service coverage ratio of not less than 1.00 to 1.00, measured annually as of the end of each fiscal year of Otis College, commencing June 30, 2014.
- Maintain unrestricted and unencumbered cash and cash equivalent in its accounts at City National Bank in the minimum aggregate sum of \$3,500,000, measured annually based on Otis College's audited financial statements as of June 30 of each calendar year, commencing June 30, 2014.

Neither the faith and credit nor the taxing power of the State or any political subdivision or agency of the State is pledged to the payment of the principal of, premium, if any, purchase price of, or

interest on, the Tax-Exempt Obligations nor is the State of California or any political subdivision thereof in any manner obligated to make any appropriation for the payment thereof. The Tax-Exempt Obligations and the Loan Agreement under which they will be issued will state that the principal of such Tax-Exempt Obligations, the premium, if any, and the interest thereon shall not be deemed to constitute a debt or liability of the State or any political subdivision or agency of the State. The Tax-Exempt Obligations are special, limited obligations of the Issuer. The Issuer shall under no circumstances be obligated to pay the Tax-Exempt Obligations except from the revenues and other funds pledged therefor under the Loan Agreement.

The credit rating requirement has been waived as permitted by I-Bank bond policies and procedures applicable to a private placement transaction.

PUBLIC BENEFITS

The Project will enable Otis College to maintain, enhance and expand its degree-granting programs in arts and design without increasing its tuition for academic instruction.

Otis College estimates that refunding the CEFA Bonds will result in an annual cash flow savings of approximately \$110,195. As a result, the tax-exempt financing will result in reduced operating costs, thereby increasing revenue to support an expansion of services to its students.

The Project will enable Otis College to provide residence to nearly 250 students, a student store and print shop, which will be partially operated by third party vendors, and enhance the college's wellness and counseling services. The project will also enable the college to continue to grow their outreach services. The college annually partners with up to 40 community organizations across Los Angeles to work with undergraduate students who partner with these organizations to respond to community challenges. This allows the students to develop cross-cultural communication and community organizing skills, root-cause analysis, and big-picture thinking all within the context of making art and design contributions. The goal of the Creative Action program is to extend the traditional boundaries of the classroom to the community.

Short term construction jobs during the duration of the construction phase along with food service, student store and print shop jobs will result as a need for additional vendors to provide services to the expanded spaces. Additional maintenance, security and custodial positions are also expected to be created for the expanded spaces and ancillary areas.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Describe: Building permits will be required and obtained for the Project involving new construction.
TEFRA	
Date of TEFRA	March 21, 2014
Publications	<i>The Sacramento Bee</i> <i>Metropolitan News-Enterprise</i>
Oral/Written Comments Received	<input type="checkbox"/> NO <input type="checkbox"/> YES, Explain: <input checked="" type="checkbox"/> TBD, TEFRA Hearing scheduled for March 21, 2014
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Project meets Public Interest Criteria (per G.C. § 63046 and 63047(d)) <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. The financing is for a project in the State of California. 2. Otis College is capable of meeting its obligations incurred under the proposed Loan Agreement. 3. Payments to be made by Otis College to the I-Bank under the proposed financing agreements are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled principal and interest payments. 4. The proposed financing is appropriate for the Project. 5. Otis College has represented that the Project is consistent with any existing local or regional comprehensive plans.
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution 14-03 authorizing the issuance of Tax-Exempt Obligations in an amount not to exceed \$35,000,000 to be sold through private placement with City National Bank and loaning the proceeds to Otis College of Art and Design.

ATTACHMENT A – GOVERNANCE AND MANAGEMENT

The current Corporate Officers and the members of the Board of Trustees are listed below.

CORPORATE OFFICERS

Samuel Hoi	President
Kerry Walk	Provost
Randall Lavender	Vice President
William Schaeffer	Vice President of Administrative and Financial Services
Dana Lopez	Vice President of Human Resources and Development
Kathy Lake	Secretary of the Corporation

BOARD OF TRUSTEES

Thomas Miller	Chair, Executive VP, Marketing, City National Bank
Susan Crank	Vice Chair, President and CEO, Lunada Bay Corporation
Rodney Freeman	Vice Chair, President, The Freeman Group
Bob McKnight	Vice Chair, Executive Chairman, Quiksilver, Inc.
Marisa Arango	Education and Arts Advocate, Art Collector
Gail Buchalter	Interior Designer
Jennifer Bellah Maguire	Attorney
Stephanie Cota	Sr. VP, Worldwide Marketing, Mattel, Inc.
Gary Cypress	Founder & Chairman, Banner Holding Company and Hispanic Express, Inc.; Founder & CEO, Sports Museum of Los Angeles
Robert Feldman	Retired Partner, Weil, Gotshal and Manges LLP
Frederick Fisher	Ex-Officio-Chair of the Board of Governors; Principal, Frederick Fisher & Partners Architects
Bronya Pereira Galef	Chair Emerita- Education and Arts Advocate, Art Collector
Bryant Garth	Chancellor's Professor of Law, The University of California-Irvine
Elaine Goldsmith	Chair Emerita- Sculptor, Civic Leader
Samuel Hoi	Ex-Officio-President, Otis College of Art and Design
Kirk Hyde	General Partner for KPC Limited Partnership, Hyde Family Partnership, and Hyde Properties
Stephen Jarchow	CEO, Regent Entertainment
Lawrence Lyttle	Communications Consultant and Advisor
Winifred White Neisser	Sr. VP, Movies and Television, Sony Pictures Television
Mei-Lee Ney	President, Richard Ney & Associates, Asset Management, Inc.
Christopher Wicks	CEO, Defiance USA
Roger Wyett	President of Nike Affiliates, Nike
Diane Ziering	Community Supporter

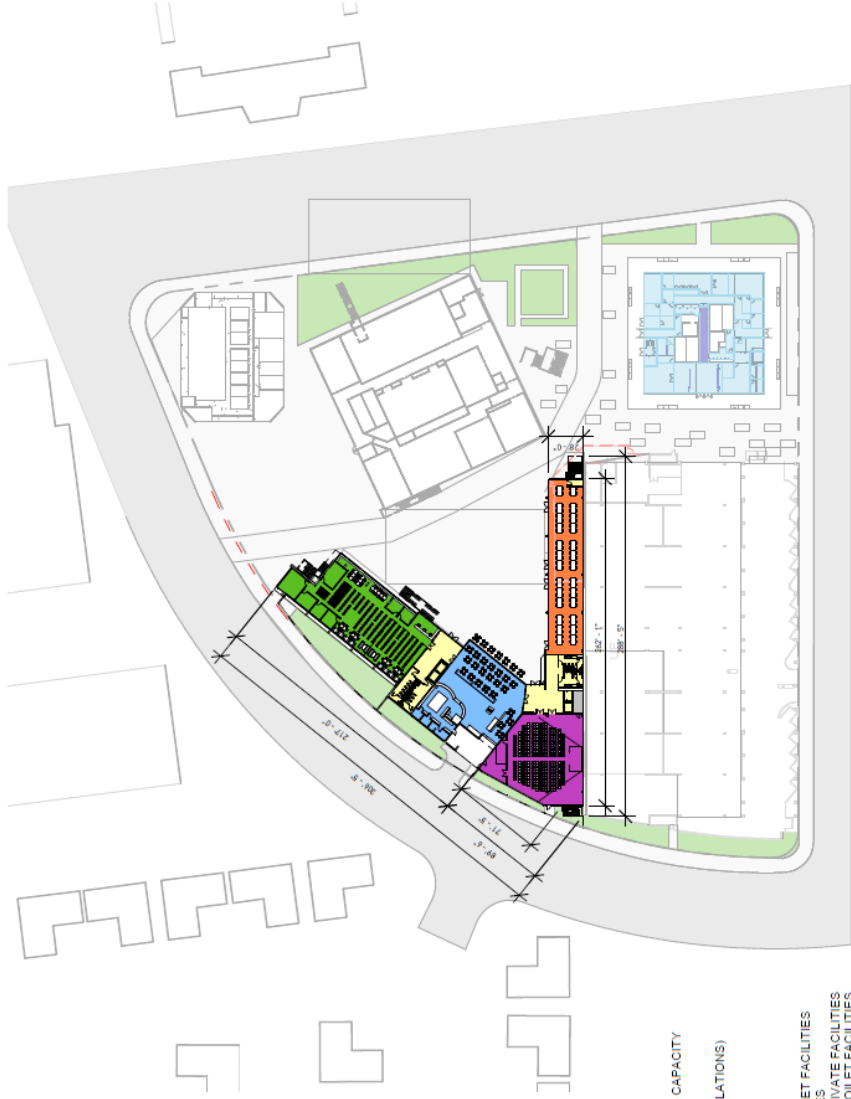
PROGRAM LEGEND

- ACADEMIC
- CIRCULATION
- FOOD SERVICE
- MULTI-PURPOSE
- STUDENT AFFAIRS
- SUPPORT

SQUARE FOOTAGE BREAKDOWN:
 24,885 GSF OFFICE/STUDENT HOUSING WING
 20,380 GSF 4-STORY ACADEMIC WING
 4,635 GSF 1-STORY MULTI-PURPOSE ROOM/LECTURE HALL

CONSTRUCTION TYPES:
 LEVEL 1 – TYPE IA, FULLY SPRINKLERED
 LEVELS 2-6 – TYPE IIA, FULLY SPRINKLERED

INTERNAL PROGRAM BREAKDOWN:
 6,010 GSF FOOD SERVICES, INCLUDING 100 PERSON DINING AREA
 4,135 GSF MULTI-PURPOSE ROOM/LECTURE HALL W/ 300 PERSON LECTURE SEATING CAPACITY
 24,820 GSF ACADEMIC SPACE (INCLUDES CLASSROOMS, LABS & STUDIO AREAS)
 4,880 GSF STUDENT AFFAIR AREAS
 (INCLUDING STUDENT UNION, TUTOR/MENTORING, WELLNESS CENTER & ALUMNI RELATIONS)
 46,835 GSF STUDENT HOUSING (INCLUDES 248 TOTAL BEDS ON 5 LEVELS)
 . (1) 500 GSF RESIDENT DIRECTOR 1-BEDROOM APARTMENT
 . (5) 300 GSF RESIDENT ADVISOR (RA) SINGLE ROOMS W/ PRIVATE BATH
 . (1) 200 GSF ARTIST IN RESIDENCE STUDIO/APARTMENT
 . (3) 200 GSF APARTMENTS W/ PRIVATE BATHS
 . (3) 200 GSF APARTMENTS W/ PRIVATE BATHS
 . (3) 400 GSF APARTMENTS W/ PRIVATE BATHS
 . (2) 400 GSF 3P ADA SUITES W/ (1) SINGLE BEDROOMS PRIVATE BATH/TOILET FACILITIES
 . (2) 400 GSF 4P ADA SUITES W/ (1) DOUBLE BEDROOM SHARED PRIVATE FACILITIES
 . (2) 628 GSF 4P ADA SUITES W/ (2) DOUBLE BEDROOMS SHARING PRIVATE BATH/TOILET FACILITIES



1 CAMPUS SITE PLAN
 1" = 80'-0"

OTIS COLLEGE OF ART & DESIGN
 GOLDSMITH CAMPUS EXPANSION

EHRlich | FISHER

PL021927-110211275

ATTACHMENT B – ARCHITECTURAL RENDERINGS (continued)



ATTACHMENT B – ARCHITECTURAL RENDERINGS (continued)



ATTACHMENT C – CASH FLOWS

Assumption: 250 beds on campus

**Otis College of Art and Design
Goldsmith Residence Life & Academic Expansion**

New Sources	FY 2017	Year 2	Year 3	FY 2020	Year 10	Year 15	Year 20
Student occupancy	244	244	244	244	244	244	244
Avg room rate	\$ 8,830	\$ 9,100	\$ 9,400	\$ 9,700	\$ 11,500	\$ 13,400	\$ 15,500
Total room revenue	\$ 2,155,000	\$ 2,220,000	\$ 2,294,000	\$ 2,367,000	\$ 2,806,000	\$ 3,270,000	\$ 3,782,000
Summer of Art housing and other summer programming	70,000	77,100	85,000	120,000	143,300	166,100	192,500
Additional food service net revenue	-	-	50,000	75,000	93,000	110,000	130,000
Turnover & vacancy (4%)	(86,200)	(88,800)	(91,760)	(94,680)	(112,240)	(130,800)	(151,280)
Housing Revenue	\$ 2,139,000	\$ 2,203,000	\$ 2,337,000	\$ 2,467,320	\$ 2,930,060	\$ 3,415,300	\$ 3,953,220
Savings on 2 leased spaces	886,200	886,200	886,200	886,200	978,000	1,078,000	1,132,000
Total Sources	\$ 3,025,200	\$ 3,089,200	\$ 3,223,200	\$ 3,353,520	\$ 3,908,060	\$ 4,493,300	\$ 5,085,220
Housing operation costs *	\$ 420,000	\$ 434,000	\$ 448,000	\$ 462,000	\$ 552,000	\$ 638,000	\$ 737,000
Contingency	42,000	43,260	44,600	45,900	54,900	63,600	75,700
Total building operation cost	\$ 462,000	\$ 477,260	\$ 492,600	\$ 507,900	\$ 606,900	\$ 701,600	\$ 810,700
Debt service 3.55%, \$35 million **	\$ 2,113,898	\$ 2,113,898	\$ 2,113,898	\$ 2,113,898	\$ 2,113,898	\$ 2,113,898	\$ 2,113,898
Total Uses	\$ 2,575,898	\$ 2,591,158	\$ 2,606,498	\$ 2,621,798	\$ 2,720,798	\$ 2,815,498	\$ 2,924,598
Net Sources	\$ 449,302	\$ 498,042	\$ 616,702	\$ 731,722	\$ 1,187,262	\$ 1,677,802	\$ 2,160,622
1999 CEFA bond savings	518,738	515,675	410,500	0			
Net Cash Flow	\$ 968,039	\$ 1,013,717	\$ 1,027,202	\$ 731,722	\$ 1,187,262	\$ 1,677,802	\$ 2,160,622
Plant renewal fund accrual (60 year amortization)	(400,000)	(800,000)	(800,000)	(800,000)	(800,000)	(800,000)	(800,000)
	\$ 568,039	\$ 213,717	\$ 227,202	\$ (68,278)	\$ 387,262	\$ 877,802	\$ 1,360,622
	\$ 568,039	\$ 781,756	\$ 1,008,957	\$ 940,679	\$ 2,173,068	\$ 5,483,396	\$ 11,277,864

Project Budget:

Construction cost	\$ 34,346,000	76%
Development costs	\$ 6,235,000	14%
Contingency & escalation	\$ 4,465,000	10%
Total Cost	\$ 45,046,000	

Sources:

Operating cash reserves	1,765,000
Bond project fund	33,281,000
Fundraising	\$ 10,000,000
Total Sources	\$ 45,046,000

Assumptions:

Single Fall 2013 - \$8,600	\$ 9,600	FY 16	36
Double Fall 2013 - \$7,800	\$ 8,700	FY 16	206
Average 2016	\$ 8,830	FY 16	242

- Inflation factor of 3% is used for all increases.
- Building operation includes the resident director and other personnel, maintenance custodial, utilities, etc.
- A 3.55% all-in true interest rate is used in this model. This is the rate offered by City National Bank.

ATTACHMENT D – BORROWER FINANCIAL STATEMENT



Report of Independent Auditors
and Financial Statements for

OTIS Otis College of Art and Design

For the years ended June 30, 2013 and 2012

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
Otis College of Art and Design

Report on the Financial Statements

We have audited the accompanying financial statements of Otis College of Art and Design, which comprise the statements of financial position as of June 30, 2013 and 2012, 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.

Auditor's 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 auditor's 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 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 Otis College of Art and Design as of June 30, 2013 and 2012, and the results of the change 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.

Moss Adams LLP

Los Angeles, California
November 8, 2013

OTIS COLLEGE OF ART AND DESIGN
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Tuition and fees	\$ 46,396,301	\$ -	\$ -	\$ 46,396,301
Less institutional financial aid	(10,639,531)	-	-	(10,639,531)
Less funded scholarships	(1,379,952)	-	-	(1,379,952)
Total tuition and fees, net	34,376,818	-	-	34,376,818
Gifts, grants and bequests	1,114,263	1,243,243	22,500	2,380,006
Auxiliary enterprises	1,229,582	-	-	1,229,582
Interest and dividends	122,066	671,469	686	794,221
Other	245,199	-	-	245,199
Total revenue and other support	37,087,928	1,914,712	23,186	39,025,826
RECLASSIFICATIONS				
Net assets released from restrictions (Scholarships and programs)	1,724,286	(1,724,286)	-	-
Total revenue, other support and reclassifications	38,812,214	190,426	23,186	39,025,826
EXPENSES				
Instruction	15,699,458	-	-	15,699,458
Academic support	3,109,551	-	-	3,109,551
Student services	4,131,541	-	-	4,131,541
Institutional support	8,950,381	-	-	8,950,381
Campus operations and maintenance	3,116,003	-	-	3,116,003
Auxiliary enterprises	1,217,673	-	-	1,217,673
Fundraising	608,569	-	-	608,569
Depreciation and amortization	1,818,192	-	-	1,818,192
Interest	145,228	-	-	145,228
Total expenses	38,796,596	-	-	38,796,596
EXCESS OF REVENUES OVER EXPENSES FROM OPERATIONS				
	15,618	190,426	23,186	229,230
Net realized and unrealized gains on investments	32,525	527,749	-	560,274
Change in net assets	48,143	718,175	23,186	789,504
NET ASSETS AT THE BEGINNING OF THE YEAR	27,010,979	9,308,597	8,463,000	44,782,576
NET ASSETS AT THE END OF THE YEAR	<u>\$ 27,059,122</u>	<u>\$ 10,026,772</u>	<u>\$ 8,486,186</u>	<u>\$ 45,572,080</u>

See accompanying notes.

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OTIS COLLEGE OF ART AND DESIGN
STATEMENTS OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Tuition and fees	\$ 44,702,347	\$ -	\$ -	\$ 44,702,347
Less institutional financial aid	(9,294,025)	-	-	(9,294,025)
Less funded scholarships	(914,419)	-	-	(914,419)
Total tuition and fees, net	34,493,903	-	-	34,493,903
Gifts, grants and bequests	1,032,610	2,069,352	228,970	3,330,932
Auxiliary enterprises	963,923	-	-	963,923
Interest and dividends	84,283	405,255	801	490,339
Other	239,510	-	-	239,510
Total revenue and other support	36,814,229	2,474,607	229,771	39,518,607
RECLASSIFICATIONS				
Net assets released from restrictions (Scholarships and programs)	1,358,957	(1,358,957)	-	-
Total revenue, other support and reclassifications	38,173,186	1,115,650	229,771	39,518,607
EXPENSES				
Instruction	16,422,695	-	-	16,422,695
Academic support	3,182,767	-	-	3,182,767
Student services	3,249,798	-	-	3,249,798
Institutional support	8,694,776	-	-	8,694,776
Campus operations and maintenance	2,774,802	-	-	2,774,802
Auxiliary enterprises	870,164	-	-	870,164
Fundraising	809,912	-	-	809,912
Depreciation and amortization	1,687,601	-	-	1,687,601
Interest	277,047	-	-	277,047
Total expenses	37,969,562	-	-	37,969,562
EXCESS OF REVENUES OVER EXPENSES FROM OPERATIONS				
	203,624	1,115,650	229,771	1,549,045
Net realized and unrealized losses on investments	(46,298)	(195,334)	-	(241,632)
Change in net assets	157,326	920,316	229,771	1,307,413
NET ASSETS AT THE BEGINNING OF THE YEAR	26,853,653	8,388,281	8,233,229	43,475,163
NET ASSETS AT THE END OF THE YEAR	\$ 27,010,979	\$ 9,308,597	\$ 8,463,000	\$ 44,782,576

OTIS COLLEGE OF ART AND DESIGN
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND 2012

ASSETS		
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 2,236,525	\$ 1,726,893
Investments	28,804,558	30,001,614
Contributions receivable, net	416,563	898,227
Tuition receivable, net	125,311	72,078
Student notes receivable, net	126,315	142,063
Other receivables	58,228	65,348
Prepaid expenses and other assets	925,370	683,123
Restricted cash - CEFA bond reserve	806,438	806,438
Restricted cash - debt service funds	129,614	211,340
Property, plant and equipment, net	21,754,727	20,878,442
Total assets	\$ 55,383,649	\$ 55,485,566
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 4,840,026	\$ 5,131,560
Unearned tuition and fees	2,436,543	2,666,430
Bonds payable	2,535,000	2,905,000
Total liabilities	9,811,569	10,702,990
NET ASSETS		
Unrestricted	26,059,122	26,010,979
Board designated for endowment	1,000,000	1,000,000
	27,059,122	27,010,979
Temporarily restricted	10,026,772	9,308,597
Permanently restricted	8,486,186	8,463,000
Total net assets	45,572,080	44,782,576
Total liabilities and net assets	\$ 55,383,649	\$ 55,485,566

See accompanying notes.

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OTIS COLLEGE OF ART AND DESIGN
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 789,504	\$ 1,307,413
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Allowance for doubtful accounts	30,608	37,253
Depreciation and amortization	1,818,192	1,687,601
Realized and unrealized losses/(gains) on investments	(599,926)	241,632
Net (gain) loss on sale of property	(2,468)	34,242
Restricted contributions, investment income and other	(23,186)	(229,771)
Changes in operating assets and liabilities		
Contributions receivable	457,414	(598,020)
Tuition receivable	(48,592)	(67,247)
Other receivables	7,120	41,486
Prepaid expenses and other assets	(242,247)	(176,448)
Accounts payable and accrued expenses	(286,795)	94,264
Unearned tuition and fees	(229,887)	(258,035)
Net cash provided by operating activities	1,669,737	2,114,370
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,692,009)	(1,516,059)
Net change in student notes receivable	4,749	2,213
Proceeds from sale of investments	48,280,962	80,188,638
Purchases of investments	(46,483,979)	(87,469,490)
Net cash used in investing activities	(890,277)	(8,794,698)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bond principal payments	(370,000)	(3,350,000)
Net change in debt service funds	81,726	(39,308)
Net change in bonds interest payable	(4,740)	(11,922)
Restricted contributions, investment income and other	23,186	229,771
Net cash used in financing activities	(269,828)	(3,171,459)
Net increase (decrease) in cash and cash equivalents	509,632	(9,851,787)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,726,893	11,578,680
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,236,525	\$ 1,726,893
SUPPLEMENTAL DISCLOSURE		
Interest paid	\$ 149,969	\$ 209,516

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of Organization

OTIS College of Art and Design ("the College") is a college specializing in art and design education, offering both graduate and undergraduate degrees. The facility in Westchester, California ("the Goldsmith Campus") has been the primary campus since February 1997. The financial statements for OTIS are prepared using the customary accounting policies for colleges and universities, the more significant of which follow.

Note 2 - Summary of Significant Accounting Policies

Basis of presentation - The financial statements of the College have been prepared on the accrual basis of accounting. Net assets of the College and changes therein are classified and reported as follows:

- **Unrestricted net assets** - Net assets that are not subject to donor-imposed stipulations or the donor-imposed restrictions have expired. As reflected in the accompanying statements of financial position, the College's Board of Trustees has designated a portion of the unrestricted net assets for long-term investment purposes or endowment.
- **Temporarily restricted net assets** - Net assets that are subject to donor-imposed stipulations that permit the College to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the College subject to statutory requirements.
- **Permanently restricted net assets** - Net assets for which the donor has stipulated that the principal be maintained in perpetuity, but permits the College to use, or expend, all or part of the income derived from the donated assets for general or specific purposes.

Cash and cash equivalents - The College considers all highly liquid investments with maturity of three months or less to be cash equivalents. The carrying amount reported in the statements of financial position for cash equivalents approximates fair value. The College is required to maintain in the bond reserve fund an amount at least equal to \$806,000. At June 30, 2013 and 2012 the College had \$806,438 in its bond reserve fund.

Investments - Investments are reported at fair value and all related transactions are recorded on the trade date.

Interest, dividends, and realized and unrealized gains and losses are accounted for within unrestricted net assets, or as changes in temporarily or permanently restricted net assets, if so stipulated by the donor of such assets.

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

Accounting Standards Codification ("ASC") 820 defines fair value as the 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. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- | | |
|----------------|--|
| Level 1 | Quoted prices in active markets for identical assets or liabilities. |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. |

Inputs are used in applying the valuation techniques and broadly refer to the assumptions that the College uses to make valuation decisions, including assumptions about risk. Inputs may include quoted market prices, recent transactions, manager statements, provisions within agreements with investment managers and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the College's perceived risk of the investment.

The investments of the College in Level 1 include cash equivalents, certificates of deposit, international equity securities, U.S. treasuries, corporate bonds, and international bonds, and are valued based on quoted market prices.

The investments of the College in Level 2 include hedge funds. The College's determination of fair value is based upon the best available information provided by the investment manager and may incorporate management assumptions and estimates after considering a variety of internal and external factors. Such value generally represents the College's proportionate share of the partner's capital of the investment partnerships as reported by their general partners. For these investments, the College has determined, through its monitoring activities, to rely on the fair value as determined by the investment managers. The fair value of these investments has been estimated using net asset value per share as a practical expedient. There were no Level 3 investments held by the College at June 30, 2013.

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

The investment managers and partners of investments categorized as Level 2 generally value their investments at fair value and in accordance with generally accepted accounting principles. Investments with no readily available market are generally recorded at an estimated market value, which attempts to apply a fair value standard by referring to meaningful third party transactions, comparable public market valuations and/or the income approach. Consideration is also given to financial condition and operating results of the investment, the amount that the investment partnerships can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. An investment may be carried at acquisition price (cost) if little has changed since the initial investment and is most representative of fair value. Investments with a readily available market (listed on a securities exchange or traded in the over-the-counter market) are valued at quoted market prices or at an appropriate discount from such price if marketability of the securities is restricted.

Although the College uses its best judgment in determining the fair value of investments, there are inherent limitations in any methodology. Future events could affect the estimates of fair value, be material to the financial statements, and affect the amount realized upon liquidation of the investments. The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Hedge funds accounted for at NAV, or its equivalent, seek to achieve capital appreciation and to maximize the total return over both the short and long-term. Strategies employed to achieve these objectives include a combination of long and short term investments in various industries. Such investments may include:

- Equity and debt-related securities of publicly traded and private U.S. companies.
- Equity and debt-related securities of publicly traded and private foreign companies.
- Partnership interests.
- Securities and financial instruments of companies experiencing financial distress, that are attempting to complete an out-of-court restructuring, are involved in a bankruptcy or similar proceeding and/or are involved in substantial litigation or that are the subject of proposed changes in corporate structure or control, such as tender or exchange offers, mergers, unsolicited merger proposals, spin-offs, splitoffs, liquidations and recapitalizations.

Investment strategies of such funds include the use of margin and other forms of leverage including taking short positions, swaps, futures, options, warrants, private placements, forward contracts, trade claims and credit default swaps, and real estate instruments, when deemed appropriate by fund managers. Other event-driven investment strategies include merger arbitrage, distressed securities and special situations. All investment objectives and strategies used by the fund managers comply with the College's Investment Policy.

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

Contributions receivable - The College recognizes unconditional contributions as a receivable and support at the time of the promise to give. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and recorded in their respective net asset category. There was no discount recorded as of June 30, 2013 and 2012.

Restricted contributions - The College records contributions as temporarily or permanently restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as temporarily restricted. The College reflects the expiration of the donor-imposed restrictions when the long-lived assets have been acquired, at which time, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Allowance for doubtful accounts - The allowance for doubtful accounts is based on identified amounts that the College believes to be uncollectible. An additional allowance is recorded based on certain percentages of aged receivables, which are determined based on historical experience and management's assessment of the general financial conditions affecting the College's student base. The allowance on contributions receivable is based on historical experience and management's assessment of the probability that the donor will not fulfill their pledge commitment. If actual collections experience changes, revisions to the allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. At June 30, 2013 and 2012, the allowance for doubtful accounts was \$300,260 and \$269,652, respectively.

Student notes receivable - Student notes receivable represent loans to students under the Perkins Loan Program.

Concentration of credit risk - Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash deposits in excess of Federal Deposit Insurance Corporation insurance limits at financial institutions, student receivables and investments in excess of Securities Investor Protection Corporation insurance limits. Concentration of credit risk with respect to cash deposits is limited as the College holds its cash in large, well-respected financial institutions. Concentration of credit risk with respect to receivables is limited due to the large number of students from whom amounts are due, with no one account being significant.

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

Property, plant and equipment - Property, plant, and equipment are recorded at cost, if purchased, or if donated, at fair value at the date of donation. Items with a useful life of two years or more and cost greater than \$1,000 are capitalized. Depreciation and amortization on buildings, furniture and equipment are based upon the estimated useful lives of the assets and are computed using the six month convention basis over the shorter of the useful lives of the assets or the terms of the lease.

Maintenance and repairs are expensed as incurred. Depreciable useful lives estimates are as follows:

Buildings and improvements	5 - 40 years
Furniture and equipment	3 - 7 years

Collections - Collections are acquired through donor contributions and are not recognized as assets on the statements of financial position. Proceeds from sale of collections are reflected as increases in the appropriate net asset classes.

Tuition and fees revenue - Tuition revenue is recognized as the educational instruction is provided. Tuition and fees received by the College for semesters ending subsequent to year end are recorded as unearned tuition and fees.

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 amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. The fair value of investments is a significant estimate and changes in fair value could have a significant effect on the financial statements.

Income taxes - The College is a tax-exempt organization and is not subject to federal or state income taxes, except for unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code. The College had no unrelated business income tax during the years ended June 30, 2013 and 2012 and no tax provision has been made in the accompanying financial statements.

The College adopted the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740-10, "Income Taxes," relating to accounting for uncertain tax positions. The College recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The College files an exempt organization return and applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board. The College is no longer subject to income tax examinations by taxing authorities for years before 2010 for its federal and 2009 for its state filings.

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation.

Subsequent events - Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The College recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The College's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

The College has evaluated subsequent events through November 12, 2013, which is the date the financial statements were available to be issued, and concluded that there were no events or transactions that need to be disclosed.

Note 3 - Fair Value of Assets

The following tables summarize the College's investments by the fair value hierarchy levels as of June 30, 2013 and 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2013</u>
Investments:				
Cash equivalents	\$ 6,631,818	\$ -	\$ -	\$ 6,631,818
Certificate of deposits	1,494,516	-	-	1,494,516
Equity securities				
International equity	8,665,047	-	-	8,665,047
Debt securities				
U.S. treasuries	5,027,236	-	-	5,027,236
Corporate bonds	3,687,529	-	-	3,687,529
International bonds	1,811,823	-	-	1,811,823
Hedge funds - multi strategy	-	1,486,590	-	1,486,590
	<u>\$ 27,317,968</u>	<u>\$ 1,486,590</u>	<u>\$ -</u>	<u>\$ 28,804,558</u>

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 3 - Fair Value of Assets (continued)

	Level 1	Level 2	Level 3	2012
Investments:				
Cash equivalents	\$ 9,675,158	\$ -	\$ -	\$ 9,675,158
Certificate of deposits	3,843,133	-	-	3,843,133
Equity securities				
International equity	3,885,917	-	-	3,885,917
Debt securities				
U.S. treasuries	5,031,134	-	-	5,031,134
Corporate bonds	2,195,687	-	-	2,195,687
International bonds	4,025,485	-	-	4,025,485
Hedge funds - multi strategy	-	-	1,345,100	1,345,100
	<u>\$ 28,656,514</u>	<u>\$ -</u>	<u>\$ 1,345,100</u>	<u>\$ 30,001,614</u>

The interest and dividends and net realized and unrealized loss in the Colleges' total investments were \$1,354,495 and \$248,707 for the years ended June 30, 2013 and 2012, respectively.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs for the years ended June 30, 2013, and 2012.

	Hedge Funds Multi-Strategy
Balance at June 30, 2012	\$ 1,345,100
Purchases	313,770
Sales	(300,003)
Unrealized gain/(loss), net	127,723
Transfers out of Level 3	(1,486,590)
Balance at June 30, 2013	<u>\$ -</u>

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 3 - Fair Value of Assets (continued)

	<u>Hedge Funds Multi-Strategy</u>
Balance at June 30, 2011	\$ -
Purchases	1,350,000
Sales	-
Unrealized gain/(loss), net	<u>(4,900)</u>
Balance at June 30, 2012	<u>\$ 1,345,100</u>

The College's policy is to recognize transfers in and transfers out at the end of the reporting period. This policy includes transfers in and transfers out of Level 1, Level 2, and Level 3. As of June 30, 2013 and 2012, there were \$1,486,590 and \$0, respectively of transfers out of Level 3. Transfers out of Level 3 as of June 30, 2013 are due to the expiration of lockups, with these investments now classified as Level 2.

The following table represents the liquidity and redemption restrictions on the above financial investments that do not have a readily determinable fair value and utilize net asset value per share to determine fair value as of June 30, 2013:

	<u>Fair value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Strategies and Other Restrictions</u>
Investments:				
Hedge fund investments	<u>1,486,590</u>	Quarterly	60-90 days	(a), (b)
Total	<u>\$ 1,486,590</u>			

As of June 30, 2013, there were no unfunded commitments to hedge fund investments.

Level 3 net realized and unrealized gains and losses are included in net realized and unrealized gains and losses on investments on the statements of activities. The total net unrealized gains and (losses) relating to Level 3 investments still held by the College as of June 30, 2013 and 2012 are \$0 and (\$4,900), respectively.

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 4 - Contributions Receivable

Contributions receivable as of June 30, 2013 is expected to be received as follows:

	<u>2013</u>	<u>2012</u>
Less than one year	\$ 465,813	\$ 728,227
In one to five years	<u>10,000</u>	<u>205,000</u>
	475,813	933,227
Less allowance for doubtful accounts	<u>59,250</u>	<u>35,000</u>
	<u>\$ 416,563</u>	<u>\$ 898,227</u>

Note 5 - Property, Plant and Equipment

Property, plant and equipment consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land	\$ 3,875,677	\$ 3,875,677
Buildings	19,276,510	19,276,510
Furniture and equipment	15,173,142	14,325,264
Leasehold improvements	1,316,306	118,917
Construction in progress	<u>738,586</u>	<u>468,541</u>
	40,380,220	38,064,909
Less accumulated depreciation and amortization	<u>(18,625,493)</u>	<u>(17,186,467)</u>
	<u>\$ 21,754,727</u>	<u>\$ 20,878,442</u>

Note 6 - Line of Credit

On March 8, 2012, the College entered into an unsecured revolving credit agreement with City National Bank ("CNB"). This agreement provides for borrowings up to \$5,000,000 through March 31, 2015 and to be used for short term working capital. Borrowings bear an interest equal to the greater of (a) one percent (1%) per year, or (b) the prime rate of CNB computed on a basis of a 360-day year, actual days elapsed. The rate at June 30, 2013 was 3.25%. No loans were made under the credit agreement, and no amounts were outstanding at June 30, 2013.

Under the credit agreement, borrowings can be repaid and re-borrowed from time to time up to termination date, provided at the time of any borrowing no event of default exists. The credit agreement includes customary events of default that, include among other things, non-payment defaults, inaccuracy of representations and warranties, certain bankruptcy events, cross defaults to other material obligations and other indebtedness, and failure to furnish CNB within the times specified of the audited financial statements, quarterly account statements from CNB and a schedule detailing amount of unrestricted liquid assets. The College is also required to maintain unrestricted and unencumbered liquid assets of not less than 1.25 times any principal amount outstanding at all times.

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 7 - Bonds Payable - California Educational Facilities Authority

In April 1999, the California Educational Facilities Authority ("CEFA") Revenue Bonds (OTIS College of Art and Design Series B) were issued in the amount of \$9,425,000. Proceeds from the bonds were used to refinance the loan on the Goldsmith Campus located at 9045 Lincoln Boulevard; prospectively to fund the design and construction of a new 40,000 - square foot classroom and studio building located at the Goldsmith Campus; and to purchase computer equipment, software and technology to expand the College's capability in the digital media curriculum.

The California Educational Facilities Authority Revenue Bonds, 1999 Series B, are secured by the Goldsmith Campus. The loan agreement requires the College to comply with various covenants, conditions and restrictions, including maintaining certain financial ratios and enrollment levels. At June 30, 2013, management believes it is in compliance with all debt covenants.

The interest rates and maturity dates of the bonds are as follows:

<u>Maturity on April 1,</u>	<u>Principal Amount</u>	<u>Interest Rate Percent</u>
2013-2017	\$ 1,665,000	5.125%
2018-2019	870,000	5.250%
Total	<u>\$ 2,535,000</u>	

The College is required to maintain in the bond reserve fund an amount at least equal to \$806,000. At June 30, 2013 and 2012 the College had \$806,438 in its bond reserve fund. Interest is payable semi-annually on April 1 and October 1. The principal is payable annually on April 1.

Certain bonds are subject to early redemption in whole or in part at the option of the College as follows:

<u>Redemption Period (Dates Inclusive)</u>	<u>Principal</u>
April 1, 2012 and thereafter	100%

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 7 - Bonds Payable - California Educational Facilities Authority (continued)

The bonds maturing on April 1, 2017 and April 1, 2019 are subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking account payments deposited in the accounts established for the College on each April 1 from and after April 1, 2012 and April 2018, respectively, upon payment of the principal amount thereof and interest accrued thereon to the date fixed for redemption (without premium), as follows:

Term Bonds Maturing Through April 1, 2017:

<u>Mandatory Sinking Account Payment Dates (April 1)</u>	<u>Mandatory Sinking Account Principal</u>
2014	\$ 385,000
2015	405,000
2016	425,000
2017 (Maturity)	450,000
	<u>\$ 1,665,000</u>

Term Bonds Maturing Through April 1, 2019:

<u>Mandatory Sinking Account Payment Dates (April 1)</u>	<u>Mandatory Sinking Account Principal</u>
2018	\$ 470,000
2019 (Maturity)	400,000
	<u>\$ 870,000</u>

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 were available for the following purposes:

	<u>2013</u>	<u>2012</u>
Educational programs and activities	\$ 3,164,010	\$ 3,283,016
Designated scholarship endowment	3,312,612	3,147,113
Expansion of facilities	1,821,366	1,677,017
Endowment scholarship fund earnings	1,728,784	1,201,451
Total temporarily restricted net assets	<u>\$ 10,026,772</u>	<u>\$ 9,308,597</u>

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 9 - Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2013 and 2012 were available for the following purposes:

	<u>2013</u>	<u>2012</u>
Scholarship funds	\$ 4,674,732	\$ 4,652,232
Faculty support	3,426,892	3,426,892
Instruction and academic support	271,236	271,236
Student loans	<u>113,326</u>	<u>112,640</u>
Total permanently restricted net assets	<u>\$ 8,486,186</u>	<u>\$ 8,463,000</u>

Note 10 - Endowment

The College's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the College has interpreted the California Uniform Prudent Management of Institutional Funds Act (CUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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 expenditure by the College in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the College and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the College
- g. The investment policies of the College

OTIS COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS

Note 10 - Endowment (continued)

Return objectives and risk parameters - The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the market value as of the donation date of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board endowment funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index or Barclays Capital Aggregate index while assuming a moderate level of investment risk.

Strategies employed for achieving objectives - To satisfy 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 that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy - The College has a policy of appropriating for distribution each year, four percent of its endowment fund's average fair value over the prior twelve quarters. In establishing this policy, the College considered long term expected return on its endowment. This is consistent with the College's objective to preserve the market value as of the donation date of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment by net asset class, in total and by fund as of June 30, 2013:

	Unrestricted- Board Designated	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Endowment
Donor-restricted endowment funds	\$ -	\$ -	\$ 5,041,397	\$ 8,372,860	\$ 13,414,257
Board-designated endowment funds	1,000,000	-	-	-	1,000,000
Total	\$ 1,000,000	\$ -	\$ 5,041,397	\$ 8,372,860	\$ 14,414,257

Changes in endowment net assets for the fiscal year ended June 30, 2013:

	Unrestricted- Board Designated	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Endowment
Balance, beginning of year	\$ 1,000,000	\$ -	\$ 4,348,540	\$ 8,350,360	\$ 13,698,900
Investment return:					
Investment income	45,514	-	577,115	-	622,629
Net realized and unrealized gain	48,406	(24)	612,906	-	661,288
Total investment return	93,920	(24)	1,190,021	-	1,283,917
Contributions	-	-	-	22,500	22,500
Transfer to fund underwater	-	24	-	-	24
Appropriation of endowment assets for scholarships (expenditure)	(93,920)	-	(497,164)	-	(591,084)
Balance, end of year	\$ 1,000,000	\$ -	\$ 5,041,397	\$ 8,372,860	\$ 14,414,257

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Note 10 - Endowment (continued)

Endowment by net asset class, in total and by fund as of June 30, 2012:

	Unrestricted- Board Designated	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Endowment
Donor-restricted endowment funds	\$ -	\$ -	\$ 4,348,540	\$ 8,350,360	\$ 12,698,900
Board-designated endowment funds	1,000,000	-	-	-	1,000,000
Total	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 4,348,540</u>	<u>\$ 8,350,360</u>	<u>\$ 13,698,900</u>

Changes in endowment net assets for the fiscal year ended June 30, 2012:

	Unrestricted- Board Designated	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Endowment
Balance, beginning of year	\$ 1,000,000	\$ -	\$ 4,898,435	\$ 8,121,390	\$ 14,019,825
Investment return:					
Investment income	29,439	-	384,031	-	413,470
Net realized and unrealized loss	(16,988)	(12,949)	(207,349)	-	(237,286)
Total investment return	12,451	(12,949)	176,682	-	176,184
Contributions	-	-	-	228,970	228,970
Transfer to fund underwater	-	12,949	-	-	12,949
Appropriation of endowment assets for scholarships (expenditure)	(12,451)	-	(726,577)	-	(739,028)
Balance, end of year	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 4,348,540</u>	<u>\$ 8,350,360</u>	<u>\$ 13,698,900</u>

Note 11 - Commitments

Operating leases - the College leases office and classroom space. The College also leases equipment under non-cancellable operating leases. The minimum lease commitments under the non-cancellable operating leases for the years ending June 30 are as follows:

Year ended June 30,	
2014	\$ 1,776,776
2015	1,613,175
2016	797,577
2017	244,718
2018	199,670
Thereafter	417,489
Total	<u>\$ 5,049,405</u>

Rental expense for the years ended June 30, 2013 and 2012 was \$2,220,547 and \$1,787,299, respectively.

The College is the guarantor of rent on certain apartment leases used for student housing, which is secured by student deposits of an amount equal to the lease. The lease amount as of June 30, 2013 and 2012 was \$1,072,871 and \$762,912, respectively.

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Note 12 - Retirement Benefits

Retirement benefits for employees of the College are provided through multiemployer - defined contribution pension plans. Contributions to these plans are based on rates required by contractual arrangements and totaled \$1,295,108 and \$1,214,744 June 30, 2013 and 2012, respectively.

Note 13 - Collections

The College collections are made up of donated artwork of historical significance which are not recorded as assets and are held for educational and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to fund endowed scholarships.

Note 14 - Contingencies

The College receives and expends monies under federal grant programs and is subject to audits by cognizant governmental agencies. Management believes that any liabilities arising from such audits will not have a material effect on the College.

From time to time, the College is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have an adverse effect on the College's financial position, statement of activities or cash flow.