SOUTHERN CALIFORNIA SCHOOL OF THEOLOGY
(dba CLAREMONT SCHOOL OF THEOLOGY)
FINANCIAL STATEMENTS
June 30, 2009 and 2008
And For The Years Then Ended

Together with Independent Auditors' Report

SOUTHERN CALIFORNIA SCHOOL OF THEOLOGY
(dba CLAREMONT SCHOOL OF THEOLOGY)

CONTENTS
June 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Southern California School of Theology:

We have audited the accompanying statements of financial position of Southern California School of Theology (dba Claremont School of Theology) (the "School") as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the School. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Stanislawski & Harrison

Stanislawski & Harrison

March 10, 2010

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Board of Trustees
Southern California School of Theology
1325 N. College Ave.
Claremont, CA 91711

We have audited the financial statements of Southern California School of Theology (dba Claremont School of Theology) (the "School" or "Organization") as of and for the year ended June 30, 2009, and have issued our report thereon dated March 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. We consider the deficiencies described in the schedule of findings and questioned costs as findings 09-4 through 09-9 to be significant deficiencies.

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

(Continued)

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control. We consider the deficiencies described in the schedule of findings and questioned costs as findings 09-1 through 09-3 to be material weaknesses in internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

We also noted certain other matters that we reported to the management of the School, in a separate letter dated March 10, 2010.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information of the board of trustees, audit committee, management, the U.S. Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stanislawski & Harrison

STANISLAWSKI & HARRISON

March 10, 2010

SOUTHERN CALIFORNIA SCHOOL OF THEOLOGY
(dba Claremont School of Theology)

STATEMENTS OF FINANCIAL POSITION
June 30, 2009 with comparative totals as of June 30, 2008

ASSETS:	2009	2008
Cash and cash equivalents	$ 374,521	$ 361,813
Investments (notes 2 and 3)	17,140,967	20,774,911
Pledges receivable, net (note 4)	3,747,124	4,306,282
Other receivables:		
Accounts, net of allowance for doubtful accounts of $71,524 in 2009 and 2008	150,544	166,890
Related parties (note 5)	375,000	432,000
Student loans, net of allowance for doubtful accounts of $147,350 in 2009 and 2008	203,494	123,559
Prepaid expense and other assets	73,812	91,141
Land held for sale (note 6)	835,265	835,265
Beneficiary interest in split interest agreements (notes 3 and 7)	11,068,083	12,729,657
Property and equipment, net of accumulated depreciation (note 8)	16,920,292	17,283,674
Collection items (note 15)	-	-
Total assets	$ 50,889,102	$ 57,105,192

LIABILITIES AND NET ASSETS:	2009	2008
Accounts payable and accrued expenses	$ 472,577	$ 276,357
Line of credit (note 9)	1,200,000	300,000
Student deposits	118,834	109,360
Unearned revenue	96,042	132,827
Advances from the federal government	308,159	308,159
Notes and loans payable (note 10)	4,589,168	4,862,548
Liability under split-interest agreements (note 1)	1,941,354	2,420,965
Total liabilities	8,726,134	8,410,216
Net assets:		
Unrestricted	4,942,859	9,844,177
Temporarily restricted (note 12)	5,567,986	6,899,139
Permanently restricted (note 12)	31,652,123	31,951,660
Total net assets	42,162,968	48,694,976
Total liabilities and net assets	$ 50,889,102	$ 57,105,192

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

SOUTHERN CALIFORNIA SCHOOL OF THEOLOGY
(dba Claremont School of Theology)

STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

With comparative totals for the year ended June 30, 2008

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total 2009	Total 2008
REVENUES:					
Student tuition and fees	$ 2,363,514	$ -	$ -	$ 2,363,514	$ 2,688,110
Less scholarships, fellowships and other assistance	(881,005)	-	-	(881,005)	(921,104)
Net tuition and fees	1,482,509	-	-	1,482,509	1,767,006
Contributions	2,200,257	1,240,773	427,900	3,868,930	8,052,710
Investment return (note 2)	(3,361,380)	(120,768)	(754,849)	(4,236,997)	760,045
Change in value of split-interest agreements	69,973	(88,438)	27,412	8,947	(307,459)
Rental income	1,179,955	-	-	1,179,955	1,238,757
Other	460,683	-	-	460,683	355,207
TOTAL REVENUES	2,031,997	1,031,567	(299,537)	2,764,027	11,866,266
Net assets released from restrictions (note 12)	2,362,720	(2,362,720)	-	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	4,394,717	(1,331,153)	(299,537)	2,764,027	11,866,266
EXPENSES:					
Instruction	2,617,518	-	-	2,617,518	2,653,622
Academic support	551,260	-	-	551,260	401,316
Sponsored programs	549,604	-	-	549,604	452,949
Student services	718,308	-	-	718,308	655,835
Institutional support	2,720,127	-	-	2,720,127	1,985,844
Plant operation and maintenance	1,803,077	-	-	1,803,077	1,739,743
Community Service	336,141	-	-	336,141	406,857
TOTAL EXPENSES (note 11)	9,296,035	-	-	9,296,035	8,296,166
INCREASE (DECREASE) IN NET ASSETS	(4,901,318)	(1,331,153)	(299,537)	(6,532,008)	3,570,100
NET ASSETS- BEGINNING OF YEAR	9,844,177	6,899,139	31,951,660	48,694,976	45,124,876
NET ASSETS- END OF YEAR	$ 4,942,859	$ 5,567,986	$ 31,652,123	$ 42,162,968	$ 48,694,976

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

SOUTHERN CALIFORNIA SCHOOL OF THEOLOGY
(dba Claremont School of Theology)

STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES:				
Student tuition and fees	$ 2,688,110	-	-	$ 2,688,110
Less scholarships, fellowships and other assistance	(921,104)	-	-	(921,104)
Net tuition and fees	1,767,006	-	-	1,767,006
Contributions	2,406,997	4,912,444	733,269	8,052,710
Investment return (note 2)	(636,910)	1,927,907	(530,952)	760,045
Change in value of split-interest agreements	(340,390)	47,370	(14,439)	(307,459)
Rental income	1,238,757	-	-	1,238,757
Other	355,207	-	-	355,207
TOTAL REVENUES	4,790,667	6,887,721	187,878	11,866,266
Net assets released from restrictions	1,407,966	(1,407,966)	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	6,198,633	5,479,755	187,878	11,866,266
EXPENSES:				
Instruction	2,653,622	-	-	2,653,622
Academic support	401,316	-	-	401,316
Sponsored programs	452,949	-	-	452,949
Student services	655,835	-	-	655,835
Institutional support	1,985,844	-	-	1,985,844
Plant operation and maintenance	1,739,743	-	-	1,739,743
Community Service	406,857	-	-	406,857
TOTAL EXPENSES (note 11)	8,296,166	-	-	8,296,166
INCREASE (DECREASE) IN NET ASSETS	(2,097,533)	5,479,755	187,878	3,570,100
NET ASSETS- BEGINNING OF THE YEAR	11,941,710	1,419,384	31,763,782	45,124,876
NET ASSETS- END OF YEAR	$ 9,844,177	$ 6,899,139	$ 31,951,660	$ 48,694,976

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

SOUTHERN CALIFORNIA SCHOOL OF THEOLOGY
(dba Claremont School of Theology)

STATEMENTS OF CASH FLOWS
For the year ended June 30, 2009 and 2008

CASH FLOWS from OPERATING ACTIVITIES:	**2009**	**2008**
Change in Net Assets from Operating Activities	$ (6,532,008)	$ 3,570,100
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	574,999	564,608
Net realized and unrealized losses on investments	4,863,859	524,995
Contributions restricted for long-term purposes	(427,900)	(733,269)
(Increase) decrease in operating assets:		
Accounts receivable, net	16,346	(68,206)
Pledges receivable	559,158	(4,306,282)
Related parties receivables	57,000	64,176
Student loans receivable, net	(79,935)	117,748
Prepaid expense	17,329	(14,426)
Beneficiary interest in split interest agreements	597,480	1,205,290
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	196,220	(258,578)
Student deposits	9,474	(17,948)
Unearned revenue	(36,785)	21,777
Liability under split-interest agreements	(479,611)	(464,714)
Net cash provided by (used in) operating activities	(664,374)	205,271
CASH FLOWS from INVESTING ACTIVITIES:		
Purchase of property and equipment	(212,219)	(384,803)
Proceeds from sale of investments	4,725,643	1,627,842
Purchase of investments	(4,890,862)	(2,435,625)
Net cash used by investing activities	(377,438)	(1,192,586)
CASH FLOWS from FINANCING ACTIVITIES:		
Net advances (payments) under line of credit arrangement	900,000	300,000
Principal payments on loans and notes payable	(273,380)	(197,662)
Contributions restricted for long-term purposes	427,900	733,269
Net cash provided by financing activities	1,054,520	835,607
Net increase (decrease) in cash and cash equivalents	12,708	(151,708)
Cash and cash equivalents at the beginning of the year	361,813	513,521
Cash and cash equivalents at the end of the year	$ 374,521	$ 361,813
Cash paid for interest	$ 223,469	$ 252,794

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The Southern California School of Theology (dba Claremont School of Theology) (the "School") is a multi-religious and globally oriented graduate school of theology primarily sponsored by the United Methodist Church. The School, located in Claremont, California, offers the M.A., M.Div., D.Min and Ph.D. degrees.

Basis of Presentation

The financial statements of the School are presented on the accrual basis of accounting. Using this accounting method, revenues are recognized when earned and expenses are recognized in the period in which the liability is incurred. According to Accounting Principles Board (APB) Statement No. 4, paragraph 151, for long-terms service contracts the School recognizes revenue when the services have been performed and are billable in compliance with the proportional performance method.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the School are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all the financial transactions have been recorded and reported by net asset class as follows:

Unrestricted – These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

Temporarily Restricted – The School reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted – These net assets are received by donors who stipulate that resources are to be maintained permanently, but permits the School to expend all of the income (or other economic benefits) derived from the donated assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Endowment - Return Objectives and Risk Parameters

The School 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 purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the School must hold in perpetuity or for a donor-specified period. 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 while assuming a moderate level of investment risk. The School expects its endowment funds, over time, to provide an average rate of return of no less than inflation plus 5 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the School 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 School 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.

Endowment Spending Policy

The School has a policy of appropriating for distribution each year an amount which is calculated by multiplying the Board-Authorized Percentage (BAP) of 6.5% with the 12-Quarter Mean Endowment Pool Value as of December 31 (MEV). This is consistent with the School's objective to support the School's cash needs as described in the annual budget and maintain the purchasing power 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the School considers all highly liquid investments with initial maturity of three months or less to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Investments

Investments are stated at fair value. The estimated fair value of investments is based on quoted market prices. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the statement of activities.

Fair Value

The School adopted Statement of Financial Accounting Standards (SFAS) No. 157 as of July 1, 2008, which among other things requires enhanced disclosures about assets and liabilities that are measured and reported at fair value. SFAS No. 157 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring fair value. This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level I – Quoted market prices are available in active market for identical assets or liabilities as of the reporting date.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level II input could result in the Level II measurement becoming a Level III measurement.

Level III – Pricing inputs are unobservable and shall be used to measure fair value to the extent that observable inputs are not available. The inputs into the determination of fair value are based upon the best information available and require significant management judgment or estimation.

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 within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The fair value of the School's Level I financial assets such as Money Market Funds, Mutual Funds, US Government Securities, and Corporate Stocks are based on quoted market prices of the identical underlying security. The fair value of the School's Level II financial assets such as Corporate Bonds are obtained from over-the-counter markets at the last reported sale price or in the absence of a recorded sale, at the values between the most recent bid and asked prices. Certificate of Deposits are valued at amortized cost, which approximate fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded as a contribution receivable at the present value of their estimated future cash flows. The discounts on those amounts are computed using a market rate of return. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Split Interest Agreements

The School issues and administers charitable remainder trust agreements in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the term of the trust. Upon termination, the School receives the remaining assets of the trust. The obligations under the trusts are based on life expectancy tables provided by the Internal Revenue Service. The School records the obligations as "liability under split-interest agreements" based on the terms of the trust agreements. The discount rate used for the year ended June 30, 2009 and 2008, was 6%. The net assets associated with these trusts are reflected in temporarily and permanently restricted net assets.

For perpetual trusts, which are accounted under permanently restricted net assets, the fair value of the contribution is measured using the fair value of the assets contributed to the trust, because the facts and circumstances indicate that the fair value of the beneficial interest does not differ from the fair value of the assets contributed to the trust.

The School also administers charitable gift annuities in which a donor contributes assets to the School in exchange for a promise by the School to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. The obligations under the gift annuity are based on life expectancy provided in the 1994 Group Annuity Mortality (GAM) Tables. The School records the obligations as "liability under split-interest agreements" based on the terms of the annuities. The discount rate used for the year ended June 30, 2009 and 2008, was 6%.

Property and Equipment

Property and equipment are recorded at historical cost or the fair market value at the date of donation, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets of 6 to 60 years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Impairment of Long-Lived Assets

The School evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset were less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

Collection Items

The collections, which were acquired through purchases and contributions since the School's inception, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Unearned Revenue

Unearned revenue represents grant funds received for services to be performed by the School which have not yet been expended under the terms of the grant agreement and which do not meet the criteria for reporting as contributions. The School recognizes these amounts as revenue when such funds are expended.

Revenue and Expense Recognition

Contributions, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate category of net assets. Contributions where donor restrictions are met within the same fiscal year as the contribution are included in unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments, investment income and other revenues are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

Functional Allocation of Expenses

The costs of providing the program and supporting activities of the School have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program, administrative, and fund raising functions, based upon the estimated benefit received by each function.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Income Taxes

The School is a nonprofit, tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income and state franchise taxes on related income pursuant to Section 501(a) of the Code and similar provisions of the California Franchise Tax Code. The School does not engage in any significant unrelated trades or businesses. Accordingly, no provision for income taxes is required.

Federal Student Financial Aid Program

The School is a participant in the federal government Title IV program, from which the School receives and distributes to qualified students unsubsidized loans, subsidized loans, and Perkins loans.

Concentration of Credit Risks

The School places its temporary cash investments with quality financial institutions. At times, such investments may be in excess of the Federal Deposits Insurance Corporation insurance limit. The School has not incurred credit losses related to these investments. As of June 30, 2009 and 2008, one donor accounted for 87% and 98% of the School's pledges receivable balance respectively. However, management believes realization losses on pledges receivable amounts at the end of 2009 will be immaterial. Concentration of credit risk for student receivables is generally limited due to the dispersion of these items over a wide creditor base. The School continually monitors its receivables and establishes valuation reserves as considered appropriate.

Use of Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Reclassifications

Certain reclassifications have been made to the 2008 financial statement amounts to conform to the 2009 presentation.

NOTE 2 – INVESTMENTS:

The composition of investments, stated at fair value at June 30, 2009 and 2008, is as follows:

	2009	2008
Money market accounts and mutual funds	$ 2,452,705	$ 2,087,567
Certificate of deposit	1,584,291	1,390,294
Government securities	1,698,159	3,143,945
Corporate stocks	10,027,482	12,058,550
Corporate notes and bonds	1,378,330	2,094,555
Total investments	$ 17,140,967	$ 20,774,911

The composition of investment return for the years ended June 30, 2009 and 2008 is as follows:

	2009	2008
Dividends and interest	$ 626,862	$ 1,285,040
Net realized and unrealized loss	(4,863,859)	(524,995)
Total investment return	$ (4,236,997)	$ 760,045

SOUTHERN CALIFORNIA SCHOOL OF THEOLOGY
(dba Claremont School of Theology)

NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 3 – FAIR VALUE MEASUREMENTS:

The following is the fair value measurement for investments and split interest agreements measured on a recurring basis at June 30, 2009:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Money market accounts and mutual funds	$ 2,452,705	$ 2,452,705	$ -	$ -
Certificate of deposit	1,584,291	-	1,584,291	-
Government securities	1,698,159	1,698,159	-	-
Corporate stocks	10,027,482	10,027,482	-	-
Corporate notes and bonds	1,378,330	-	1,378,330	-
Total Investments	$ 17,140,967	$ 14,178,346	$ 2,962,621	$ -
Split Interest Agreements:				
Gift Annuities managed by CALPAC	$ 1,556,040	$ 1,556,040	$ -	$ -
Perpetual Trusts:				
United Methodist Foundation of Sun City	5,958,552	-	-	5,958,552
Los Angeles United Methodist Foundation	1,000,000	-	-	1,000,000
Floy Van Nuys Trust	586,472	-	586,472	-
Total Perpetual Trusts	7,545,024	-	586,472	6,958,552
Charitable Remainder Trusts:				
Elizabeth Smith Trust	91,926	-	91,926	-
Spoelstra Trust	611,983	-	-	611,983
Balkins Trust managed by Wells Fargo	542,650	-	542,650	-
Trusts managed by Clifford Swan	720,460	-	720,460	-
Total Charitable Remainder Trusts	1,967,019	-	1,355,036	611,983
Total Split Interest Agreements	$ 11,068,083	$ 1,556,040	$ 1,941,508	$ 7,570,535

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

The following is the activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2009:

	Beginning Balance 6/30/08	Total gains or losses (realized / unrealized)	Purchases, issuances, and settlements	Transfers in and / or out of Level 3	Ending Balance 6/30/09
Split Interest Agreements:					
United Methodist Foundation of Sun City	$ 6,593,629	$ (635,077)	$ -	$ -	$ 5,958,552
Los Angeles United Methodist Foundation	1,000,000	-	-	-	1,000,000
Spoelstra Trust	-	-	611,983	-	611,983
Total	$ 7,593,629	$ (635,077)	$ 611,983	$ -	$ 7,570,535

NOTE 4 – PLEDGES RECEIVABLE:

As of June 30, 2009 and 2008, pledges receivable, net of discount to present value (at a discount rate of 2%), were as follows:

	2009	2008
Within one year	$ 745,271	$ 599,334
Within two and five years	3,267,792	4,129,352
Gross pledges receivable	4,013,063	4,728,686
Less discount to present value	(265,939)	(422,404)
Total	$ 3,747,124	$ 4,306,282

NOTE 5 – RELATED PARTIES:

Related parties to the School include the California-Pacific Annual Conference of The United Methodist Church, the Desert Southwest Annual Conference of The United Methodist Church, and officials and faculty of the School. Contributions to the School for the years ended June 30, 2009 and 2008, were $172,859 and $148,312, respectively, from the California-Pacific Annual Conference and $28,978 and $36,940, respectively, from the Desert Southwest Annual Conference.

At June 30, 2009 and 2008, the outstanding balances of loans to an officer and some faculty members of the School aggregated $375,000 and $432,000, respectively. Such loans were made in connection with the purchases of personal residences. In the majority of cases, the School participates in the appreciation of the respective property in lieu of interest. These loans are payable in full to the School within one year of sale of the property or when the faculty's affiliation with the School is terminated.

NOTE 6 – LAND HELD FOR SALE:

Land held for sale consists of the following properties at June 30, 2009 and 2008:

	2009	2008
Blythe, California	$ 665,000	$ 665,000
Barstow, California	135,765	135,765
Other	34,500	34,500
Total	$ 835,265	$ 835,265

Land held for sale is comprised of land donated to the School and has been recorded at the estimated fair market value at the date of donation and carried at cost for subsequent periods.

NOTE 7 – BENEFICIARY INTEREST IN SPLIT INTEREST AGREEMENTS:

The composition of beneficiary interest in split interest agreements, stated at fair value at June 30, 2009 and 2008, is as follows:

	2009	2008
Gift Annuities managed by California-Pacific Annual Conference (CAL-PAC)	$ 1,556,040	$ 1,865,382
Perpetual Trusts:		
United Methodist Foundation of Sun City	5,958,552	6,593,629
Los Angeles United Methodist Foundation	1,000,000	1,000,000
Floy Van Nuys Trust	586,472	706,245
Total Perpetual Trusts	7,545,024	8,299,874
Charitable Remainder Trusts:		
G.E and Mattie Kinsey Trust	-	650,523
Spoelstra Trust	611,983	-
Elizabeth Smith Trust	91,926	303,147
Balkans Trust managed by Wells Fargo	542,650	787,797
Trusts managed by Clifford Swan	720,460	822,934
Total Charitable Remainder Trusts	1,967,019	2,564,401
Total Beneficiary Interest in Split Interest Agreements	$ 11,068,083	$ 12,729,657

NOTE 8 – PROPERTY AND EQUIPMENT:

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

	2009	2008
Land	$ 315,253	$ 315,253
Buildings and improvements	17,862,834	17,862,834
Furniture and fixtures	2,512,345	2,492,277
Equipment and vehicles	2,121,773	2,051,836
Library books	3,997,866	3,876,411
Other	12,565	12,565
Total	26,822,636	26,611,176
Less: accumulated depreciation	(9,902,344)	(9,327,502)
Total, net	$ 16,920,292	$ 17,283,674

NOTE 9 – LINE OF CREDIT:

The School has a line of credit with a financial institution with available borrowings up to $1,500,000. This line is of credit is secured by a certificate of deposit valued at $1,500,000. At June 30, 2009 outstanding balance under the line of credit was $1,200,000. The line of credit carried an interest rate of 5.00% during 2009 and will expire within the next fiscal year.

At June 30, 2008 outstanding balance under the line of credit was $300,000. The line of credit had an interest rate of 6.00% during 2008.

NOTE 10 – NOTES AND LOANS PAYABLE:

At June 30, 2009 the School has an unsecured note payable to Watson Family Trust for $2,203,900. The note bears interest at 4% with monthly principal and interest payments of $26,735 through July 31, 2017. At June 30, 2008 the note payable was $2,412,783.

At June 30, 2009, the School had a secured loan payable to United Methodist Federal Credit Union totaling $2,385,268, maturing within 15 years. The loan is secured by the campus building and bears interest which is adjustable starting at 6.0% tied to five-year Treasury-Bill plus a margin of 2.5% with monthly principal and interest payments of $17,396 through July 31, 2023. At June 30, 2008 the loan payable balance was $2,449,765.

Scheduled principal payments on the above debt at June 30, 2009 are expected to be paid by the School as follows:

Year Ending June 30	
2010	$ 303,917
2011	317,794
2012	332,331
2013	347,560
2014	363,516
Therafter	2,924,050
	$ 4,589,168

NOTE 11 – FUNCTIONAL EXPENSES:

The functional allocation of expenses for the years ended June 30, 2009 and 2008, are as follows:

	2009	2008
Program Expenses	$ 7,147,510	$ 6,523,828
General and Administrative	1,424,192	1,201,194
Fund Raising	724,333	571,144
	$ 9,296,035	$ 8,296,166

NOTE 12 – NET ASSETS:

At June 30, 2009 and 2008, temporarily restricted net assets were available for the following purposes:

	2009	2008
Pledges receivable	$ 3,747,124	$ 4,306,282
Purpose restriction for scholarship	296,512	337,848
Split interest agreements	1,524,350	2,255,009
Total Temporarily Restricted Net Assets	$ 5,567,986	$ 6,899,139

Amounts released from temporary restrictions during the years ended June 30, 2009 and 2008 were as follows:

	2009	2008
Pledges and split interest agreements	$ 2,057,412	$ -
Academic support	-	795,232
Institutional support	-	216,620
Scholarships, fellowships and other assistance	305,308	396,114
Total	$ 2,362,720	$ 1,407,966

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support scholarships, instruction, lectures, research, student loans, the library, and other projects.

NOTE 13 – ENDOWMENT:

The School's endowment consists of several individual funds established for a variety of purposes. Its endowment comprises of donor-restricted endowment funds only. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the School has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 School 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 School in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:
(1) The duration and preservation of the fund
(2) The purposes of the organization 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 organization
(7) The investment policies of the organization

The School's endowment by net asset class at June 30, 2009, in total and by type of endowment fund, showing donor-restricted endowment funds are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- restricted endowment funds	$(4,897,612)	$ -	$31,652,123	$ 26,754,511

NOTE 13 – ENDOWMENT: (continued)

Changes in endowment assets for the year ended June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2008	$ (854,199)	$ -	$ 31,951,660	$ 31,097,461
Net Depreciation (Realized and Unrealized)	(2,891,189)	-	(727,437)	(3,618,626)
Contributions (during the year)	-	-	427,900	427,900
Appropriation of endowment assets for expenditure *	(1,152,224)	-	-	(1,152,224)
Endowment net assets, June 30, 2009	$ (4,897,612)	$ -	$ 31,652,123	$ 26,754,511

* Refers to endowment assets eligible for expenditure in light of the organizations spending policy.

NOTE 14 – RETIREMENT PLAN:

The School participates in a defined contribution plan for its faculty, administrators, and staff. Under the plan, the School contributed $402,170 and $368,161, based on salaries of $3,630,005 and $3,562,623 for the years ended June 30, 2009 and 2008, respectively. Such contribution is calculated based on 6% of salaries for employees that have been with the School for 90 days to four years and 12% of salaries for employees that have been with the School for more than four years. Contribution to faculty are determined by rank (6% for assistant professors, 12% for associate professors and professors).

NOTE 15 – COLLECTION ITEMS:

The School's collections are made up of artifacts of historical significance and art objects that are held for educational, research, 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 acquire other items for collections.

During June 2000, a significant number of Asian artifacts were contributed to the School, with a restriction that limited any future proceeds from deaccessions to acquisitions of artifacts from a similar period. No other collection items were deaccessioned or destroyed as of June 30, 2009 and 2008.

NOTE 16 – UNDERWATER ENDOWMENTS:

Declines in the market value of the investment pool have created a situation where the market value of certain endowments is less than the cost basis of the original gift. This condition has been referred to as an "underwater endowment." Net losses on permanently restricted endowment funds are recorded as decreases in unrestricted net assets.

At June 30, 2009 the School's endowment was deficient, or "underwater" by approximately \$4,897,612 reflecting the market decline. At June 30, 2008, the endowment was deficient by approximately \$854,199.

NOTE 17 – CONDITIONAL ASSET RETIREMENT OBLIGATIONS:

The School has some conditional asset retirement obligations related to asbestos and other hazardous material in a number of its buildings. Regulations put into place after the construction of those buildings require the School to handle and dispose of these types of materials in a special manner if the building undergoes major renovations, is sold or demolished. Otherwise, the School is not required to remove the materials from the buildings. The School believes it does not have sufficient information to estimate the fair value of the asset retirement obligations because the settlement date or the range of potential settlement dates has not been specified by others and information is not available to apply an expected present value technique.

There are no plans or expectations of plans to undertake major renovations of the areas of the buildings that would require removal of the materials or demolition. Also, the School has not identified a need for major renovations for the purpose of technology or operational changes, or other factors.

NOTE 18 – MANAGEMENT'S PLANS:

The School has steadily improved its cash flow management, although cash flow remains subject to the inconsistencies of income flow and class size characteristic of most schools and colleges. The School has a systematic plan established to increase income streams through the addition of new academic programs and a capital campaign.

NOTE 19 – ACCREDITATION REVIEW:

The Western Association of Schools and Colleges (WASC) removed the sanctions on the School's accreditation in February 2009. Furthermore, the Association of Theological Schools (ATS) removed the sanctions on the School's accreditation in June 2009.

NOTE 20 – SUBSEQUENT EVENTS:

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through March 10, 2010, the date the financial statements were available to be issued.

The School received a new restricted pledge in the amount of $5,000,000, in January 2010, to be paid over the next ten years in equal installments of $500,000.