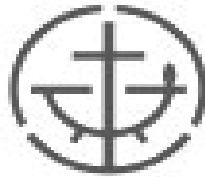


**SOUTHERN CALIFORNIA SCHOOL OF
THEOLOGY**
(dba CLAREMONT SCHOOL OF THEOLOGY)

FINANCIAL STATEMENTS
June 30, 2015 and 2014
And For The Years Then Ended

Together with Independent Auditor's Report



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

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June 30, 2015 and 2014**

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INDEPENDENT AUDITOR'S 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"), which comprise the statement of financial position as of June 30, 2015, and the related consolidated statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audit contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

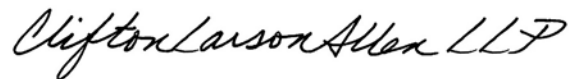
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Other Matter

The 2014 financial statements were audited by Stanislawski & Harrison, whose practice became part of CliftonLarsonAllen, LLP as of December 1, 2015, and whose report dated March 13, 2015, expressed an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Pasadena, California
February 10, 2016

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

STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

ASSETS:	2015	2014
Cash and cash equivalents	\$ 776,805	\$ 707,857
Pledges receivable, net (note 4)	961,417	1,053,877
Other receivables:		
Accounts receivable, net of allowance for doubtful accounts of \$71,524 in 2015 and 2014	599,915	169,543
Related parties and employee loans (note 5)	300,000	400,000
Student loans, net of allowance for doubtful accounts of \$147,350 in 2015 and 2014	241,876	278,464
Receivable from Bayan College	172,715	-
Receivable from Claremont Lincoln University	-	448,966
Prepaid expense and other assets	104,886	109,966
Restricted cash (note 1)	30,183	36,763
Investments, at fair value (notes 2 and 3)	9,751,233	11,218,611
Land held for sale (note 6)	170,265	835,265
Beneficiary interest in split-interest agreements (notes 3 and 7)	12,235,782	12,327,257
Property and equipment, net of accumulated depreciation (note 8)	15,110,077	15,494,010
Total assets	\$ 40,455,154	\$ 43,080,579
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	\$ 482,677	\$ 372,981
Line of credit (note 9)	1,494,938	1,497,824
Student deposits	122,081	105,574
Unearned revenue	1,348,706	31,985
Advances from the federal government	307,194	308,159
Notes and loans payable (note 10)	2,810,265	3,052,145
Liability under split-interest agreements (note 7)	1,659,733	1,575,271
Total liabilities	8,225,594	6,943,939
Commitments (note 16)		
Net assets:		
Unrestricted (accumulated deficit)	(3,946,047)	(241,863)
Temporarily restricted (note 12)	1,278,216	1,372,912
Permanently restricted (notes 12 and 13)	34,897,391	35,005,591
Total net assets	32,229,560	36,136,640
Total liabilities and net assets	\$ 40,455,154	\$ 43,080,579

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2015
with comparative totals for 2014

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total	
				2015	2014
REVENUES:					
Student tuition and fees	\$ 3,769,971	\$ -	\$ -	\$ 3,769,971	\$ 1,904,494
Less scholarships, fellowships and other assistance	(1,994,735)	-	-	(1,994,735)	(1,036,623)
Net tuition and fees	1,775,236	-	-	1,775,236	867,871
Teaching revenue from CLU	1,184,422	-	-	1,184,422	-
Contributions	2,032,955	177,710	50,000	2,260,665	2,295,222
Investment return (note 2)	390,819	(47,305)	(158,200)	185,314	2,634,499
Change in value of split-interest agreements	-	29,567	-	29,567	(104,529)
Rental income	1,025,922	-	-	1,025,922	1,139,876
Gain on disposal (note 6)	332,500	-	-	332,500	-
Other income	384,135	-	-	384,135	433,912
TOTAL REVENUES	7,125,989	159,972	(108,200)	7,177,761	7,266,851
Net assets released from restrictions (note 12)	254,668	(254,668)	-	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	7,380,657	(94,696)	(108,200)	7,177,761	7,266,851
EXPENSES:					
Instruction	3,457,518	-	-	3,457,518	2,810,400
Academic support	728,567	-	-	728,567	623,305
Sponsored programs	425,438	-	-	425,438	467,300
Student services	1,346,874	-	-	1,346,874	898,427
Institutional support	2,061,657	-	-	2,061,657	1,891,587
Plant operation and maintenance	2,491,072	-	-	2,491,072	2,068,725
Community service	573,715	-	-	573,715	467,102
TOTAL EXPENSES (note 11)	11,084,841	-	-	11,084,841	9,226,846
DECREASE IN NET ASSETS	(3,704,184)	(94,696)	(108,200)	(3,907,080)	(1,959,995)
RE-DESIGNATION (note 1)	-	-	-	-	(132,043)
DECREASE IN NET ASSETS AFTER RE-DESIGNATION	(3,704,184)	(94,696)	(108,200)	(3,907,080)	(2,092,038)
(ACCUMULATED DEFICIT) NET ASSETS - BEGINNING OF YEAR	(241,863)	1,372,912	35,005,591	36,136,640	38,228,678
(ACCUMULATED DEFICIT) NET ASSETS - END OF YEAR	\$ (3,946,047)	\$ 1,278,216	\$ 34,897,391	\$ 32,229,560	\$ 36,136,640

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

	Unrestricted	Temporarily	Permanently	
	Net Assets	Restricted	Restricted	
	Net Assets	Net Assets	Net Assets	Total
REVENUES:				
Student tuition and fees	\$ 1,904,494	\$ -	\$ -	\$ 1,904,494
Less scholarships, fellowships and other assistance	(1,036,623)	-	-	(1,036,623)
Net tuition and fees	867,871	-	-	867,871
Contributions	2,200,222	95,000	-	2,295,222
Investment return (note 2)	2,126,002	(322,914)	831,411	2,634,499
Change in value of split-interest agreements	-	(104,529)	-	(104,529)
Rental income	1,139,876	-	-	1,139,876
Other	433,912	-	-	433,912
TOTAL REVENUES	6,767,883	(332,443)	831,411	7,266,851
Net assets released from restrictions (note 12)	1,696,656	(1,696,656)	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	8,464,539	(2,029,099)	831,411	7,266,851
EXPENSES:				
Instruction	2,810,400	-	-	2,810,400
Academic support	623,305	-	-	623,305
Sponsored programs	467,300	-	-	467,300
Student services	898,427	-	-	898,427
Institutional support	1,891,587	-	-	1,891,587
Plant operation and maintenance	2,068,725	-	-	2,068,725
Community service	467,102	-	-	467,102
TOTAL EXPENSES (note 11)	9,226,846	-	-	9,226,846
INCREASE (DECREASE) IN NET ASSETS	(762,307)	(2,029,099)	831,411	(1,959,995)
RE-DESIGNATION (note 1)	(132,043)	-	-	(132,043)
INCREASE (DECREASE) IN NET ASSETS AFTER REDESIGNATION	(894,350)	(2,029,099)	831,411	(2,092,038)
NET ASSETS- BEGINNING OF YEAR	652,487	3,402,011	34,174,180	38,228,678
(ACCUMULATED DEFICIT) NET ASSETS - END OF YEAR	\$ (241,863)	\$ 1,372,912	\$ 35,005,591	\$ 36,136,640

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

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS from OPERATING ACTIVITIES:		
Change in Net Assets from Operating Activities	\$ (3,907,080)	\$ (2,092,038)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	764,253	770,560
Net realized and unrealized gains on investments	(23,235)	(2,434,828)
Gain on disposal of land	(332,500)	-
Forgiveness of notes and loans payable	(150,000)	(150,000)
(Increase) decrease in operating assets:		
Pledges receivable	92,460	1,304,623
Accounts receivable, net	(430,372)	(130,140)
Related parties and employee loans	100,000	(50,000)
Student loans, net	36,588	106,399
Receivable from Bayan College	(172,715)	-
Receivable from Claremont Lincoln University	448,966	(448,966)
Prepaid expense and other assets	5,080	(57,819)
Beneficiary interest in split-interest agreements	91,475	(616,038)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	108,732	(191,658)
Payable to Claremont Lincoln University	-	(625,098)
Student deposits	16,507	(14,304)
Unearned revenue	1,316,721	(4,760)
Liability under split-interest agreements	84,462	(214,206)
Net cash used in operating activities	<u>(1,950,658)</u>	<u>(4,848,273)</u>
CASH FLOWS from INVESTING ACTIVITIES:		
Purchase of property and equipment	(380,320)	(428,387)
Proceeds from sale of land	997,500	-
Proceeds from sale of investments	5,126,803	5,465,515
Purchase of investments	(3,636,190)	(629,781)
Net cash provided by investing activities	<u>2,107,793</u>	<u>4,407,347</u>
CASH FLOWS from FINANCING ACTIVITIES:		
Principal payments on note and loan payable	<u>(94,767)</u>	<u>(86,522)</u>
Net increase (decrease) in cash and cash equivalents	62,368	(527,448)
Cash and cash equivalents at the beginning of the year	<u>744,620</u>	<u>1,272,068</u>
Cash and cash equivalents at the end of the year	<u>\$ 806,988</u>	<u>\$ 744,620</u>
Recap of cash and cash equivalents:		
Cash and cash equivalents	\$ 776,805	\$ 707,857
Restricted cash	30,183	36,763
	<u>\$ 806,988</u>	<u>\$ 744,620</u>
Cash paid for interest	<u>\$ 180,489</u>	<u>\$ 190,326</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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 Accounting and Presentation

The accompanying financial statements have been prepared 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.

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 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.

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.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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

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

Cash and cash equivalents include cash in bank as well as all highly liquid investments with initial maturity of three months or less.

Restricted Cash

Restricted cash represent assets restricted by donors for various programs and other long-term purposes.

Investments

The fair value of the School's Level 1 financial assets such as money market funds and mutual funds are stated at net asset value (NAV) as reported by fund managers. Corporate equities are based on quoted market prices of the identical underlying security. The fair value of the School's Level 2 financial assets such as short-term, intermediate-term and long-term 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 approximates fair value.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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

Fair Value Measurements

Fair Value Standards (ASC 820-10) 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 1 – Quoted market prices are available in active market for identical assets or liabilities as of the reporting date.

Level 2 – 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 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 – 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.

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 Annuity 2000 Mortality Tables. The School records the obligations as “liability under split-interest agreements” based on the terms of the trust agreements. 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.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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

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 3 to 60 years.

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.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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

Management Fees

During the year ended June 30, 2014, the School entered into a three year agreement with Bayan College, an educational organization, to provide student, academic, administrative and support services. Agreement will expire on June 30, 2017, renewable for one or more additional terms. Fees for the services are included in other income in the statement of activities. As of June 30, 2015, the School had a receivable balance of approximately \$172,000.

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.

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.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization that might be uncertain. Management has considered its tax positions and believes all of the positions taken by the School are more likely than not to be sustained upon examination. The returns are subject to examination by federal and state taxing authorities generally three and four years, respectively, after they are filed.

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. Concentration of credit risk for student receivables is generally limited due to the dispersion of these items over a wide student base. The School continually monitors its receivables and establishes valuation reserves as considered appropriate.

As of June 30, 2015 and 2014, approximately 81% and 88% of the total pledges receivable was due from one donor, respectively. Management believes realization losses on pledges receivable amounts at the end of 2015 and 2014 were immaterial.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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

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.

Re-designation

Re-designation represents transfer between net asset categories to conform to current donor restrictions.

Subsequent Events

Subsequent events have been evaluated through February 10, 2016, the date that these financial statements are available to be issued. There were no subsequent events that would require adjustments to or disclosure in these financial statements except as already disclosed in these financial statements.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2 – INVESTMENTS:

The composition of investments, stated at fair value at June 30, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Cash and money market accounts	\$ 513,445	\$ 645,348
Money market funds	904	904
Mutual funds - U.S. equities	189,645	184,585
Certificate of deposit	2,732,805	2,536,922
Corporate equities:		
Consumer discretionary	975,217	1,022,297
Consumer staples	258,927	396,952
Energy	258,829	520,036
Financials	1,273,191	1,322,692
Healthcare	860,138	1,021,230
Industrials	656,004	748,216
Information technology	972,375	1,033,804
Materials	240,429	319,239
Telecommunication services	69,391	152,693
Utilities	13,123	62,362
Equity blend	4,751	-
Fixed income:		
Long-term bond	247,020	63,981
Intermediate-term bond	169,053	391,830
Short-term bond	182,482	525,824
Fixed income bond	133,504	269,696
Total investments	<u>\$ 9,751,233</u>	<u>\$ 11,218,611</u>

The composition of investment return for the years ended June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Dividends and interest	\$ 162,079	\$ 199,671
Net realized and unrealized gain	23,235	2,434,828
Total investment return	<u>\$ 185,314</u>	<u>\$ 2,634,499</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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, 2015 and 2014:

2015	Total	Level 1	Level 2	Level 3
Cash and money market accounts	\$ 513,445	\$ 513,445	\$ -	\$ -
Money market funds	904	904	-	-
Certificate of deposit	2,732,805	-	2,732,805	-
Mutual funds - U.S. equities	189,645	189,645	-	-
Corporate equities:				
Consumer discretionary	975,217	975,217	-	-
Consumer staples	258,927	258,927	-	-
Energy	258,829	258,829	-	-
Financials	1,273,191	1,273,191	-	-
Healthcare	860,138	860,138	-	-
Industrials	656,004	656,004	-	-
Information technology	972,375	972,375	-	-
Materials	240,429	240,429	-	-
Telecommunication services	69,391	69,391	-	-
Utilities	13,122	13,122	-	-
Equity blend	4,751	4,751	-	-
Fixed income:				
Long-term bond	247,020	-	247,020	-
Intermediate-term bond	169,053	-	169,053	-
Short-term bond	182,482	-	182,482	-
Fixed income bond	23,940	-	23,940	-
Fixed income funds	61,736	61,736	-	-
Fixed income blend	47,829	47,829	-	-
Total investments	\$ 9,751,233	\$ 6,395,933	\$ 3,355,300	\$ -

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

<u>2015</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Split-Interest Agreements:				
Gift annuities	\$ 511,020	\$ -	\$ 511,020	\$ -
Perpetual trusts:				
United Methodist Foundation of Sun City	8,093,768	-	-	8,093,768
Los Angeles United Methodist Foundation	1,000,000	-	-	1,000,000
Floy Van Nuys Trust	763,491	-	-	763,491
Total perpetual trusts	<u>9,857,259</u>	<u>-</u>	<u>-</u>	<u>9,857,259</u>
Charitable remainder trusts:				
Spoelstra Trust	314,092	-	-	314,092
Balkins Trust managed by Wells Fargo	728,898	-	728,898	-
Trusts managed by Clifford Swan	824,513	-	824,513	-
Total charitable remainder trusts	<u>1,867,503</u>	<u>-</u>	<u>1,553,411</u>	<u>314,092</u>
Total split-interest agreements	<u>\$ 12,235,782</u>	<u>\$ -</u>	<u>\$ 2,064,431</u>	<u>\$ 10,171,351</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

2014	Total	Level 1	Level 2	Level 3
Cash and money market accounts	\$ 645,348	\$ 645,348	\$ -	\$ -
Money market funds	904	904	-	-
Certificate of deposit	2,536,922	-	2,536,922	-
Mutual funds - U.S. equities	184,585	184,585	-	-
Corporate equities:				
Consumer discretionary	1,022,297	1,022,297	-	-
Consumer staples	396,952	396,952	-	-
Energy	520,036	520,036	-	-
Financials	1,322,692	1,322,692	-	-
Healthcare	1,021,230	1,021,230	-	-
Industrials	748,216	748,216	-	-
Information technology	1,033,804	1,033,804	-	-
Materials	319,239	319,239	-	-
Telecommunication services	152,693	152,693	-	-
Utilities	62,362	62,362	-	-
Fixed income:				
Long-term bond	63,981	-	63,981	-
Intermediate-term bond	391,830	-	391,830	-
Short-term bond	525,824	-	525,824	-
Fixed income bond	23,850	-	23,850	-
Fixed income funds	77,486	77,486	-	-
Fixed income blend	168,360	168,360	-	-
Total investments	\$ 11,218,611	\$ 7,676,204	\$ 3,542,407	\$ -

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

2014	Total	Level 1	Level 2	Level 3
Split-Interest Agreements:				
Gift annuities	\$ 547,485	\$ -	\$ 547,485	\$ -
Perpetual trusts:				
United Methodist Foundation of Sun City	8,243,261	-	-	8,243,261
Los Angeles United Methodist Foundation	1,000,000	-	-	1,000,000
Floy Van Nuys Trust	772,198	-	-	772,198
Total perpetual trusts	<u>10,015,459</u>	<u>-</u>	<u>-</u>	<u>10,015,459</u>
Charitable remainder trusts:				
Spoelstra Trust	322,798	-	-	322,798
Balkins Trust managed by Wells Fargo	744,911	-	744,911	-
Trusts managed by Clifford Swan	696,604	-	696,604	-
Total charitable remainder trusts	<u>1,764,313</u>	<u>-</u>	<u>1,441,515</u>	<u>322,798</u>
Total split-interest agreements	<u>\$ 12,327,257</u>	<u>\$ -</u>	<u>\$ 1,989,000</u>	<u>\$ 10,338,257</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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 years ended June 30, 2015 and 2014:

2015	Beginning Balance	Total unrealized gains or (losses)	Purchases, issuances, and settlements	Transfers in and / or out of Level 3	Ending Balance
Split-Interest Agreements:					
United Methodist Foundation of Sun City	\$ 8,243,261	\$ (149,493)	\$ -	\$ -	\$ 8,093,768
Los Angeles United Methodist Foundation	1,000,000	-	-	-	1,000,000
Floy Van Nuys Trust	772,198	(8,707)	-	-	763,491
Spoelstra Trust	322,798	(8,706)	-	-	314,092
Total	\$ 10,338,257	\$ (166,906)	\$ -	\$ -	\$ 10,171,351
<hr/>					
2014					
Split-Interest Agreements:					
United Methodist Foundation of Sun City	\$ 7,492,303	\$ 750,958	\$ -	\$ -	\$ 8,243,261
Los Angeles United Methodist Foundation	1,000,000	-	-	-	1,000,000
Floy Van Nuys Trust	691,745	80,453	-	-	772,198
Spoelstra Trust	441,275	(118,477)	-	-	322,798
Total	\$ 9,625,323	\$ 712,934	\$ -	\$ -	\$ 10,338,257

The amount attributable to the change in unrealized (losses) gains relating to assets still held at year end was (\$166,106) and \$712,934 for the years ended June 30, 2015 and 2014, respectively.

NOTE 4 – PLEDGES RECEIVABLE:

As of June 30, 2015 and 2014, pledges receivable, net of discount to present value (at discount rate of 4%), were as follows:

	2015	2014
Within one year	\$ 331,127	\$ 706,418
Within two and five years	759,000	799,000
Thereafter	38,525	188,525
Gross pledges receivable	1,128,652	1,693,943
Less allowance for uncollectible pledges	(46,500)	(480,000)
Less discount to present value	(120,735)	(160,066)
Total	\$ 961,417	\$ 1,053,877

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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, 2015 and 2014, were \$31,772 and \$26,100, respectively, from the California-Pacific Annual Conference and \$41,885 and \$32,885, respectively, from the Desert Southwest Annual Conference.

At June 30, 2015 and 2014, the outstanding balances of loans to an officer and some faculty members of the School aggregated \$300,000 and \$400,000, 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Barstow, California	\$ 135,765	\$ 135,765
Blythe, California	-	665,000
Other	34,500	34,500
Total	<u>\$ 170,265</u>	<u>\$ 835,265</u>

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. The Blythe land held for sale was sold in July 2014 for \$997,500.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 7 – SPLIT-INTEREST AGREEMENTS:

The composition of beneficiary interest in split-interest agreements, stated at fair value at June 30, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Perpetual Trusts:		
United Methodist Foundation of Sun City	\$ 8,093,768	\$ 8,243,261
Los Angeles United Methodist Foundation	1,000,000	1,000,000
Floy Van Nuys Trust	763,491	772,198
Total Perpetual Trusts	<u>9,857,259</u>	<u>10,015,459</u>
Charitable Remainder Trusts:		
Spoelstra Trust	314,092	322,798
Trusts Administered by the School:		
Balkans Trust	728,898	744,911
Other Trusts	824,513	696,604
Total Charitable Remainder Trusts	<u>1,867,503</u>	<u>1,764,313</u>
Gift Annuities - Administered by the School	<u>511,020</u>	<u>547,485</u>
Total Beneficiary Interest in Split-Interest Agreements	<u>\$ 12,235,782</u>	<u>\$ 12,327,257</u>

The School 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 Annuity 2000 Mortality Table. The School records the obligations as “liability under split-interest agreements” based on the terms of the annuities. The discount rate used for the years ended June 30, 2015 and 2014, was 6%.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 8 – PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 315,253	\$ 315,253
Buildings and improvements	18,059,749	18,059,749
Furniture and fixtures	2,184,210	2,174,172
Equipment and vehicles	3,518,885	3,371,550
Library books	5,104,480	4,881,308
Other	12,566	12,791
Total	<u>29,195,143</u>	<u>28,814,823</u>
Less: accumulated depreciation	<u>(14,085,066)</u>	<u>(13,320,813)</u>
Total Property and Equipment, net	<u>\$ 15,110,077</u>	<u>\$ 15,494,010</u>

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 of credit is secured by a certificate of deposit valued at \$1,500,000. The line of credit carried an interest rate of 3.35% for 2015 and 2014, and expired on July 15, 2015. The line of credit was renewed and will expire on September 30, 2016. At June 30, 2015 and 2014, the outstanding balance under the line of credit was \$1,494,938 and \$1,497,824, respectively.

NOTE 10 – NOTE AND LOAN PAYABLE:

At June 30, 2015 and 2014, the School has an unsecured note payable to Watson Family Trust for \$938,525 and \$1,088,525, respectively. The note bears interest at 4% with monthly principal and interest payments of \$26,735 through July 31, 2017. Effective May 30, 2012, the Watson Family agreed to forgive \$150,000 on May 30 of each year until the note is fully forgiven. The School recorded interest forgiveness as temporarily restricted support and an increase in contribution receivable net of discount in the amount of \$1,141,326 during the year ended June 30, 2012.

At June 30, 2015 and 2014, the School had a secured loan payable to United Methodist Federal Credit Union totaling \$1,871,740 and \$1,963,620, respectively. The loan is secured by the campus building and bears interest which is adjustable (minimum of 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. The loan agreement requires the School to be in compliance with various financial ratio covenants. As of June 30, 2015, the School was not in compliance with a certain loan covenant, however the School subsequently obtained a waiver for the covenant violation.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 10 – NOTES AND LOANS PAYABLE: (continued)

Scheduled principal payments on the above debt at June 30, 2015 are expected to be paid by the School as follows:

<u>Year Ending June 30</u>		
2016	\$	246,346
2017		252,436
2018		258,910
2019		265,765
2020		273,114
Therafter		<u>1,513,694</u>
Total	\$	<u><u>2,810,265</u></u>

NOTE 11 – FUNCTIONAL EXPENSES:

The functional allocation of expenses for the years ended June 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Program Expenses	\$ 8,198,943	\$ 6,696,000
General and Administrative	1,451,636	1,272,602
Fundraising	<u>1,434,262</u>	<u>1,258,244</u>
Total	<u><u>\$ 11,084,841</u></u>	<u><u>\$ 9,226,846</u></u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 12 – NET ASSETS:

At June 30, 2015 and 2014, temporarily restricted net assets were available for the following purposes:

	<u>2015</u>	<u>2014</u>
School projects and salary support	\$ 815,596	\$ 858,375
Split-interest agreements	270,690	288,428
Time restriction	169,430	154,721
Other	22,500	22,500
University project	-	48,888
Total Temporarily Restricted Net Assets	<u>\$ 1,278,216</u>	<u>\$ 1,372,912</u>

Amounts released from temporary restrictions during the years ended June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Time restriction	\$ 163,001	\$ 93,000
University project	48,888	1,115,604
School projects and salary support	42,779	408,052
Scholarships	-	80,000
Total	<u>\$ 254,668</u>	<u>\$ 1,696,656</u>

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.

For the years ended June 30, 2015 and 2014, the School incurred costs of \$48,888 and \$1,115,604, respectively, on behalf of Claremont Lincoln University; these expenses were recorded in various expense line items of the School's statements of activities and presented as part of net assets released from restrictions.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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, 2015 and 2014, in total and by type of endowment fund, showing donor-restricted endowment funds are as follows:

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- restricted endowment funds	\$ (17,158,991)	\$ -	\$ 34,897,391	\$ 17,738,400
2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- restricted endowment funds	\$ (15,684,139)	\$ -	\$ 35,005,591	\$ 19,321,452

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 13 – ENDOWMENT: (continued)

Changes in endowment assets for the year ended June 30, 2015 and 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2013	\$ (13,106,576)	\$ -	\$ 34,174,180	\$ 21,067,604
Net appreciation (realized and unrealized)	1,592,681	-	831,411	2,424,092
Appropriation of endowment assets for expenditure *	(1,222,990)	-	-	(1,222,990)
Borrowings from endowment	(2,947,254)	-	-	(2,947,254)
Endowment net assets, June 30, 2014	(15,684,139)	-	35,005,591	19,321,452
Net depreciation (realized and unrealized)	(193,902)	-	(158,200)	(352,102)
Contributions (during the year)	-	-	50,000	50,000
Appropriation of endowment assets for expenditure *	(1,259,946)	-	-	(1,259,946)
Borrowings from endowment	(21,004)	-	-	(21,004)
Endowment net assets, June 30, 2015	<u>\$ (17,158,991)</u>	<u>\$ -</u>	<u>\$ 34,897,391</u>	<u>\$ 17,738,400</u>

* Includes endowment assets eligible for expenditure in light of the School's spending policy.

Declines in the market value of the investment pool and annual borrowings out of the endowment 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. As of June 30, 2015 and 2014, the cumulative borrowings from the endowment pool were \$9,696,171 and \$9,675,167, respectively.

At June 30, 2015, the School’s endowment was deficient, or “underwater,” by \$17,158,991, reflecting annual appropriations per School’s investment policy totaling \$1,259,946. At June 30, 2014, the endowment was deficient, or “underwater,” by \$15,684,139, reflecting annual appropriations per School’s investment policy totaling \$1,222,990.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 14 – RETIREMENT PLAN:

The School participates in a defined contribution plan for its faculty, administrators, and staff. Under the plan, the School contributed \$396,389 and \$399,427 for the years ended June 30, 2015 and 2014, 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. Contributions 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 collection items were deaccessioned or destroyed as of June 30, 2015 and 2014.

NOTE 16 – COMMITMENTS:

Capital Lease

During the fiscal year ended June 30, 2013, the School entered into a five-year commitment under a capital lease for phone equipment. The annual payment under the lease is \$45,568. As of June 30, 2015 and 2014, the lease liability was \$107,805 and \$151,842, respectively.

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.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 18 – IRREVOCABLE LETTER OF CREDIT:

In order to participate in Title IV programs, an institution must demonstrate that it is financially responsible. Part of the way the U.S. Department of Education determines financial responsibility is through the use of the equity, primary reserve, and net income ratios that yield a composite score of at least 1.5 over a three year period. The U. S. Department of Education performed an analysis of the fiscal year ended June 30, 2012; financial statements yielded a composite score of 0.6. As a result of this, the School was required to establish an irrevocable letter of credit required by the U.S. Department of Education in the amount of \$988,807. A letter of credit in the amount of \$1,489,394 has been issued by United Methodist Federal Credit Union on September 29, 2015 which will expire on September 30, 2016.

NOTE 19 – MANAGEMENT PLANS:

The School is experiencing significant revenue difficulties and cash flow difficulties, leading the School to draw from its endowment corpus to fund operating deficits, creating a large underwater situation for its endowments. Management is committed to restoring its underwater endowments. Additionally, certain infrastructure expenses have been delayed and are now anticipated in the near future. Management acknowledges these issues and implements a multi-pronged approach to mitigate these adverse conditions. Management's multi-pronged approach, labeled Blueprint for a Sustainable Future, includes the following elements:

1. Increasing tuition revenue via enrollment growth backed by new recruiting strategies and online education options to attract new student populations
2. Liquidating assets that are not used to accomplish the core mission
3. Increase in fundraising through a renewed fundraising commitment from its Board and reinvigorated connections to The United Methodist Church
4. Decrease in personnel costs from benefits restructuring and personnel attrition
5. Downsizing the campus

During the year ended June 30, 2015, the School was able to accomplish the following:

1. Increase student headcount from 172 to 288 (including the recovery of 97 students formerly enrolled at Claremont Lincoln University), resulting in additional net tuition revenue of approximately \$1,900,000
2. Sold land for \$997,500 with a net book value of \$665,000. Sold cuneiforms for \$250,000 with zero net book value (asset was not on books).
3. A 33% reduction in retirement benefits saving \$200,000 per year.
4. Medical benefits changes saving \$103,000 in premiums per year.
5. Offer early retirement packages to three faculty, the layoff of six staff, and the decision to not fill voluntarily vacated positions resulting in cost savings of \$900,000.



**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statement
Performed in Accordance with *Government Auditing Standards***

Board of Directors
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”) as of and for the year ended June 30, 2015, and have issued our report thereon dated January 30, 2016. 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

Management of the School is responsible for establishing and maintaining effective 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 purpose of expressing our opinion 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs in a Circular A-133 audit as items 2015-001 and 2015-002 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

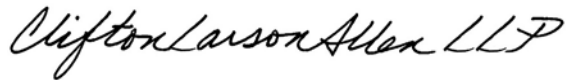
**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statement
Performed in Accordance with *Government Auditing Standards*
(Continued)**

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 or other matters which are required to be reported under *Government Auditing Standard*.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs in a Circular A-133 audit. We did not audit the School's response and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose. 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.



CliftonLarsonAllen LLP

Pasadena, California
February 10, 2016

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
June 30, 2015

2015-001 Audit Adjustments

Cause and Condition: We proposed several audit adjustments and management concurred and recorded the adjustments.

Effect: Proposed year-end audit adjustments.

Recommendation: The School should create a year-end closing checklist to ensure closing adjustments are appropriately recorded.

2015 Management Response: Management concurs with the proposed audit adjustments presented on Schedule 1 of the governance letter and will execute them forthwith.

2015-002 Depreciation Calculation

Cause and Condition: The School does not have a detailed depreciation schedule to calculate the depreciation expense more accurately. The School calculates depreciation expense by taking the year-end book balance of each fixed asset category and dividing it by the estimated useful lives. This method may overstate the depreciation expense over time as the assets fully depreciate. In addition, the useful lives for furniture and fixtures are estimated to be 30 years, which is not within the reasonable range of estimates.

Effect: Proposed year-end adjustment. No detail information available for fixed assets and related depreciation expense.

Recommendation: Consider using the fixed assets depreciation module that integrates with the general ledger system. Alternatively, consider maintaining a more detailed depreciation tracking system that would include asset by asset level detail and calculate depreciation based on the year or date the asset was placed in service.

2015 Management Response: Management concurs with the change in formula for the depreciation calculation for computers and equipment. The Board of Trustees approved raising the capitalization threshold which will simplify the capitalization schedule.