SOUTHERN CALIFORNIA SCHOOL OF THEOLOGY
(dba CLAREMONT SCHOOL OF THEOLOGY)
FINANCIAL STATEMENTS
June 30, 2008

Together with Independent Auditors' Report

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

CONTENTS
June 30, 2008

STANISLAWSKI & HARRISON
CERTIFIED PUBLIC ACCOUNTANTS
AN ACCOUNTANCY CORPORATION

Voice: 626-793-3600
Fax: 626-793-3631
E-mail: info@snh-cpa.com

301 N. Lake Avenue
Suite 900
Pasadena, CA 91101-4108

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, 2008, and the related statements of activities and cash flows for the year 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 audit. The financial statements of the School as of June 30, 2007, were audited by other auditors whose report dated October 15, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards,* issued by the U.S. Comptroller General. 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 audit provides a reasonable basis for our opinion.

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

In accordance with Governmental Auditing Standards, we have also issued a report dated May 11, 2009 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, and grants. The purpose of this 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 19 to the financial statements, an error resulting in understatement of assets was discovered during the current year. Accordingly, the 2007 financial statements and beginning net assets as of July 1, 2006, have been adjusted to correct the error.

Stanislawski & Harrison

Stanislawski & Harrison

May 11, 2009

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

STATEMENT OF FINANCIAL POSITION

June 30, 2008 with comparative totals as of June 30, 2007 (Restated)

ASSETS:	2008	2007
Cash and cash equivalents	$ 361,813	$ 513,521
Investments (note 2)	20,774,911	20,492,124
Pledges receivable, net (note 3)	4,306,282	-
Other receivables:		
Accounts, net of allowance for doubtful accounts of $ 71,524 in 2008 and $31,906 in 2007	166,890	98,684
Related parties (note 4)	432,000	496,176
Student loans, net of allowance for doubtful accounts of $147,350 in 2008 and 2007 (note 19)	123,559	241,307
Prepaid expense and other assets	91,141	76,715
Land held for sale (note 5)	835,265	835,265
Beneficiary interest in split interest agreements (note 6)	12,729,657	13,934,947
Property and equipment, net of accumulated depreciation (note 7)	17,283,674	17,463,478
Collection items (note 13)	-	-
Total assets	$ 57,105,192	$ 54,152,217
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	$ 276,357	$ 534,935
Line of credit (note 8)	300,000	-
Student deposits	109,360	127,308
Unearned revenue	132,827	111,050
Advances from the federal government	308,159	308,159
Notes and loans payable (note 9)	4,862,548	5,060,210
Liability under split-interest agreements (note 1)	2,420,965	2,885,679
Total liabilities	8,410,216	9,027,341
Net assets:		
Unrestricted	9,844,177	11,941,710
Temporarily restricted (note 11)	6,899,139	1,419,384
Permanently restricted (note 11)	31,951,660	31,763,782
Total net assets	48,694,976	45,124,876
Total liabilities and net assets	$ 57,105,192	$ 54,152,217

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

With comparative totals for the year ended June 30, 2007 (Restated)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total 2008	Total 2007
REVENUES:					
Student tuition and fees	$ 2,688,110	$ -	$ -	$ 2,688,110	$ 2,371,497
Less scholarships, fellowships and other assistance	(921,104)	-	-	(921,104)	(1,164,723)
Net tuition and fees	1,767,006	-	-	1,767,006	1,206,774
Contributions	2,406,997	4,912,444	733,269	8,052,710	5,283,405
Investment return (note 2)	(636,910)	1,927,907	(530,952)	760,045	3,377,900
Change in value of split-interest agreements	(340,390)	47,370	(14,439)	(307,459)	(148,902)
Rental income	1,238,757	-	-	1,238,757	1,364,072
Other	355,207	-	-	355,207	203,362
TOTAL REVENUES	4,790,667	6,887,721	187,878	11,866,266	11,286,611
Net assets released from restrictions (note 11)	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	11,286,611
EXPENSES:					
Instruction	2,131,210	-	-	2,131,210	1,943,752
Academic support	935,460	-	-	935,460	840,677
Sponsored programs	579,257	-	-	579,257	408,138
Student services	353,914	-	-	353,914	341,746
Institutional support	2,642,275	-	-	2,642,275	2,123,788
Plant operation and maintenance	1,624,041	-	-	1,624,041	1,802,411
Auxiliary expenditures	30,009	-	-	30,009	54,335
TOTAL EXPENSES (note 10)	8,296,166	-	-	8,296,166	7,514,847
INCREASE (DECREASE) IN NET ASSETS	(2,097,533)	5,479,755	187,878	3,570,100	3,771,764
NET ASSETS- BEGINNING OF YEAR, AS RESTATED	11,941,710	1,419,384	31,763,782	45,124,876	41,353,112
NET ASSETS- END OF YEAR	$ 9,844,177	$ 6,899,139	$ 31,951,660	$ 48,694,976	$ 45,124,876

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, 2007 (Restated)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES:				
Student tuition and fees	$ 2,371,497	$ -	$ -	$ 2,371,497
Less scholarships, fellowships and other assistance	(1,164,723)	-	-	(1,164,723)
Net tuition and fees	1,206,774	-	-	1,206,774
Contributions	3,507,374	1,008,664	767,367	5,283,405
Investment return (note 2)	2,033,021	1,344,879	-	3,377,900
Change in value of split-interest agreements	(69,122)	(350,969)	271,189	(148,902)
Rental income	1,364,072	-	-	1,364,072
Other	203,362	-	-	203,362
TOTAL REVENUES	8,245,481	2,002,574	1,038,556	11,286,611
Net assets released from restrictions	1,068,413	(1,068,413)	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	9,313,894	934,161	1,038,556	11,286,611
EXPENSES:				
Instruction	1,943,752	-	-	1,943,752
Academic support	840,677	-	-	840,677
Sponsored programs	408,138	-	-	408,138
Student services	341,746	-	-	341,746
Institutional support	2,123,788	-	-	2,123,788
Plant operation and maintenance	1,802,411	-	-	1,802,411
Auxiliary expenditures	54,335	-	-	54,335
TOTAL EXPENSES	7,514,847	-	-	7,514,847
INCREASE IN NET ASSETS	1,799,047	934,161	1,038,556	3,771,764
NET ASSETS-BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	10,238,884	(165,300)	30,018,981	40,092,565
CUMULATIVE IMPACT OF RESTATEMENT (note 19)	(96,221)	650,523	706,245	1,260,547
NET ASSETS- BEGINNING OF THE YEAR, AS RESTATED	10,142,663	485,223	30,725,226	41,353,112
NET ASSETS- END OF YEAR, AS RESTATED	$ 11,941,710	$ 1,419,384	$ 31,763,782	$ 45,124,876

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, 2008 and 2007

CASH FLOWS from OPERATING ACTIVITIES:	**2008**	**2007**
Change in Net Assets from Operating Activities	$ 3,570,100	$ 3,771,764
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	564,608	558,634
Net realized and unrealized (gains) losses on investments	524,995	(2,021,505)
Contributions restricted for long-term purposes	(733,269)	(767,367)
(Increase) decrease in operating assets:		
Accounts receivable, net	(68,206)	62,485
Pledges receivable	(4,306,282)	-
Related parties receivables	64,176	(8,608)
Student loans receivable, net	117,748	(12,216)
Prepaid expense	(14,426)	1,183
Beneficiary interest in split interest agreements	1,205,290	356,493
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(258,578)	101,566
Student deposits	(17,948)	26,018
Unearned revenue	21,777	(279,857)
Liability under split-interest agreements	(464,714)	(353,992)
Net cash provided by operating activities	205,271	1,434,598
CASH FLOWS from INVESTING ACTIVITIES:		
Purchase of property and equipment	(384,803)	(550,777)
Proceeds from sale of investments	1,627,842	22,418,559
Purchase of investments	(2,435,625)	(23,526,066)
Net cash used by investing activities	(1,192,586)	(1,658,284)
CASH FLOWS from FINANCING ACTIVITIES:		
Net advances (payments) under line of credit arrangement	300,000	(1,479,412)
Proceeds of loans and notes payable	-	2,403,220
Principal payments on loans and notes payable	(197,662)	(1,443,276)
Contributions restricted for long-term purposes	733,269	767,367
Net cash provided by financing activities	835,607	247,899
Net increase (decrease) in cash and cash equivalents	(151,708)	24,213
Cash and cash equivalents at the beginning of the year	513,521	489,308
Cash and cash equivalents at the end of the year	$ 361,813	$ 513,521
Cash paid for interest	$ 252,794	$ 253,294

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.

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.

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

The School records investments in equity securities with readily determinable fair values and all investments in debt securities at estimated fair value, with gains and losses included in the statements of activities. Investments in land held for sale are recorded at the lower of cost or estimated net realizable value.

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 risk-free interest rates. 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 "liabilities payables under split-interest agreements" based on the terms of the trust agreements. The discount rate used for the year ended June 30, 2008, was 6%. The net assets associated with these trusts are reflected in temporarily and permanently restricted net assets.

For perpetual trusts, 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 "liabilities under split-interest agreements" based on the terms of the annuities. The discount rate used for the year ended June 30, 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, 2008, one donor accounted for 98% of the School's pledges receivable balance. However, management believes realization losses on pledges receivable amounts at the end of 2008 will be immaterial.

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.

Comparative Totals

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

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

Reclassifications and Restatements

Certain reclassifications and restatements have been made to the 2007 financial statement amounts to conform to the 2008 presentation.

NOTE 2 – INVESTMENTS:

The composition of investments, stated at fair value at June 30, 2008 and 2007, is as follows:

	2008	2007
Money market and other mutual funds	$ 2,087,567	$ 1,344,228
Certificate of deposit	1,390,294	1,602,617
Government securities	3,143,945	3,619,491
Corporate stocks	12,058,550	12,291,911
Corporate notes and bonds	2,094,555	1,633,877
Total investments	$ 20,774,911	$ 20,492,124

The composition of investment return for the years ended June 30, 2008 and 2007 is as follows:

	2008	2007
Dividends and interest	$ 1,285,041	$ 1,356,395
Net realized gain	111,914	1,835,845
Net unrealized gain (loss)	(636,910)	185,660
Total investment return	$ 760,045	$ 3,377,900

NOTE 3 – PLEDGES RECEIVABLE:

As of June 30, 2008, the School had pledges receivable of $4,306,282. Pledges receivable, net of discount to present value (at a discount rate of 2%), as of June 30, 2008, were due to be collected as follows:

Within one year	$ 599,334
Within two and five years	4,129,352
Gross pledges receivable	4,728,686
Less discount to present value	(422,404)
Total	$ 4,306,282

NOTE 4 – 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, 2008 and 2007, were $148,312 and $101,993, respectively, from the California-Pacific Annual Conference and $36,940 and $15,156, respectively, from the Desert Southwest Annual Conference.

At June 30, 2008 and 2007, the outstanding balances of loans to an officer and some faculty members of the School aggregated $432,000 and $496,176, 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 5 – LAND HELD FOR SALE:

Land held for sale consists of the following properties at June 30, 2008 and 2007:

	2008	2007
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.

NOTE 6 – BENEFICIARY INTEREST IN SPLIT INTEREST AGREEMENTS:

The composition of beneficiary interest in split interest agreements, stated at fair value at June 30, 2008 and 2007, is as follows:

	2008	2007
Gift Annuities managed by California-Pacific Annual Conference (CAL-PAC)	$ 1,865,382	$ 2,382,467
Perpetual Trusts:		
United Methodist Foundation of Sun City	6,593,629	7,124,580
Los Angeles United Methodist Foundation	1,000,000	1,000,000
Floy Van Nuys Trust	706,245	706,245
Total Perpetual Trusts	8,299,874	8,830,825
Charitable Remainder Trusts:		
G.E and Mattie Kinsey Trust	650,523	650,523
Elizabeth Smith Trust	303,147	303,147
Balkans Trust managed by Wells Fargo	787,797	795,648
Trusts managed by Clifford Swan	822,934	972,337
Total Charitable Remainder Trusts	2,564,401	2,721,655
Total Beneficiary Interest in Split Interest Agreements	$ 12,729,657	$ 13,934,947

NOTE 7 – PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at June 30, 2008 and 2007:

	2008	2007
Land	$ 315,253	$ 315,253
Buildings and improvements	17,862,834	17,705,898
Furniture and fixtures	2,492,277	2,491,767
Equipment and vehicles	2,051,836	1,958,582
Library books	3,876,411	3,742,307
Other	12,565	12,565
Total	26,611,176	26,226,372
Less: accumulated depreciation	(9,327,502)	(8,762,894)
Total, net	$ 17,283,674	$ 17,463,478

NOTE 8 – LINE OF CREDIT:

During 2008, the School obtained a new line of credit in the amount $300,000 maturing within the next fiscal year. At June 30, 2008 outstanding balance under the line of credit was $300,000. The line of credit carried an interest rate of 6.00% during 2008.

NOTE 9 – NOTES AND LOANS PAYABLE:

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

At June 30, 2008, the School had a loan payable to United Methodist Federal Credit Union totaling $2,449,765, maturing within 15 years. The loan 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.

Scheduled principal payments on the above debt at June 30, 2008 are expected to be paid by the School as follows:

Year Ending June 30	
2009	$ 334,213
2010	304,107
2011	317,992
2012	332,537
2013	347,775
Therafter	3,225,924
	$ 4,862,548

NOTE 10 – FUNCTIONAL EXPENSES:

The functional allocation of expenses for the year ended June 30, 2008, is as follows:

Program Expenses	$ 5,891,889
General and Administrative	1,060,336
Fund Raising	1,343,941
	$ 8,296,166

NOTE 11 – NET ASSETS:

At June 30, 2008 and 2007, temporarily restricted net assets were available for the following purposes:

	2008	2007
Pledges receivable	$ 4,306,282	$ -
Purpose restrcition for scholarship	337,848	-
Time restriction	2,255,009	1,419,384
Total Temporary Restricted Net Assets	$ 6,899,139	$ 1,419,384

Amounts released from temporary restrictions during the year were as follows:

Academic support	$ 795,232
Institutional support	216,620
Scholarships, fellowships and other assistance	396,114
Total	$ 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 12 – RETIREMENT PLAN:

The School participates in a defined contribution plan for its faculty, administrators, and staff. Under the plan, the School contributed $368,161 and $334,225, based on salaries of $3,562,623 and $3,244,765 for the years ended June 30, 2008 and 2007, 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 13 – 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.

NOTE 13 – COLLECTION ITEMS: (continued)

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, 2008 and 2007.

NOTE 14 – 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, 2008 the School's endowment was deficient, or "underwater" by approximately $854,199 reflecting the market decline At June 30, 2007, the endowment was deficient by approximately $535,000.

The School has also been repaying $1.8 million borrowed from the endowment in 2006 by an earlier administration. The amount owed to the endowment is currently at approximately $673,081. The School and the Board of Trustees continue to address the reduction of this 2006 loan, with the target of repaying it in full by 2011.

NOTE 15 – 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 16 – 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 17 – ACCREDITATION REVIEW:

For the period between November 2006 and November 2008, the School was under sanction (on probation) with the Western Association of Schools and Colleges (WASC), the School's primary accrediting agency, and with the Association of Theological Schools (ATS), a secondary accrediting organization. WASC verbally lifted the School's probation in November 2008 and in writing in February 2009. A recent visiting team from ATS (March 2009) recommended removal of probation and restoration to full status; ATS Commissioners will vote to confirm the ATS team recommendation in June 2009.

NOTE 18 – IRREVOCABLE LETTER OF CREDIT:

The School participates in the US government's Title IV programs. In the fiscal year ending June 30, 2006, the School's composite financial score of 1.4 did not meet the Department of Education's requirement for a minimum score of 1.5. As a consequence, the School was required to establish an irrevocable letter of credit, using funds from its endowment, with the U.S. Department of Education on September 8, 2007 in the amount of $1,040,218 through July 31, 2007. Reflecting the School's improved financial status, the requirement for the letter of credit was lifted in May 2008, and the funds were fully restored to the School's endowment principle.

NOTE 19 – RESTATEMENT:

The School has restated its previously issued 2007 financial statements to reflect split interest agreements not recorded in prior years. The accompanying financial statements for 2007 have been restated to reflect the corrections. Also, net assets at July 1, 2006, were increased by $1,260,547.

The effect of the restatement on the School's previously issued 2007 financial statements is summarized as follows:

Statement of Financial Position as of June 30, 2007

	Previously Stated	Increase (Decrease)	Restated
Assets:			
Beneficiary interest in split interest agreement	$ 12,578,179	$ 1,356,768	$ 13,934,947
Student Loans Receivable	337,528	(96,221)	241,307
Total Assets	$ 12,915,707	$ 1,260,547	$ 14,176,254
Net Assets:			
Net Assets - June 30, 2006	$ 40,092,565	$ 1,260,547	$ 41,353,112
Increase (Decrease) in Net Assets for 2007	3,771,764	-	3,771,764
Net Assets - June 30, 2007	$ 43,864,329	$ 1,260,547	$ 45,124,876

NOTE 20 – SUBSEQUENT EVENTS:

Due to recent declines in the equity market, for the period from July 1, 2008 to March 31, 2009, the market value of the School's investments declined by $5,115,664.

Further declines in the financial markets may have adversely affected investment values. As certain investment valuations are only available at month-end, the amount of additional investment losses, if any, after March 31 has not been determined.