

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

FINANCIAL STATEMENTS
June 30, 2014 and 2013
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, 2014 and 2013**

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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 statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

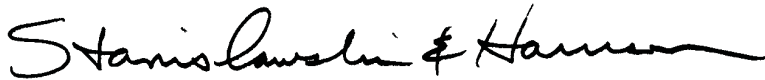
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2015 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.

A handwritten signature in black ink that reads "Stanislawski & Harrison". The signature is written in a cursive, flowing style.

STANISLAWSKI & HARRISON

March 13, 2015

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

STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

ASSETS:	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 707,857	\$ 921,048
Pledges receivable, net (note 4)	1,053,877	2,358,500
Other receivables:		
Accounts receivable, net of allowance for doubtful accounts of \$71,524 in 2014 and 2013	169,543	39,403
Related parties and employee loans (note 5)	400,000	350,000
Student loans, net of allowance for doubtful accounts of \$147,350 in 2014 and 2013	278,464	384,863
Receivable from Claremont Lincoln University	448,966	-
Prepaid expense and other assets	109,966	52,147
Restricted cash (note 1)	36,763	351,020
Investments, at fair value (notes 2 and 3)	11,218,611	13,619,517
Land held for sale (note 6)	835,265	835,265
Beneficiary interest in split-interest agreements (notes 3 and 7)	12,327,257	11,711,219
Property and equipment, net of accumulated depreciation (note 8)	<u>15,494,010</u>	<u>15,836,183</u>
Total assets	<u>\$ 43,080,579</u>	<u>\$ 46,459,165</u>
 LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	\$ 372,981	\$ 564,639
Payable to Claremont Lincoln University	-	625,098
Line of credit (note 9)	1,497,824	1,497,824
Student deposits	105,574	119,878
Unearned revenue	31,985	36,745
Advances from the federal government	308,159	308,159
Notes and loans payable (note 10)	3,052,145	3,288,667
Liability under split-interest agreements (note 7)	<u>1,575,271</u>	<u>1,789,477</u>
Total liabilities	<u>6,943,939</u>	<u>8,230,487</u>
Commitments (note 16)		
Net assets:		
Unrestricted	(241,863)	652,487
Temporarily restricted (note 12)	1,372,912	3,402,011
Permanently restricted (notes 12 and 13)	<u>35,005,591</u>	<u>34,174,180</u>
Total net assets	<u>36,136,640</u>	<u>38,228,678</u>
Total liabilities and net assets	<u>\$ 43,080,579</u>	<u>\$ 46,459,165</u>

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

With comparative totals for the year ended June 30, 2013

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total	
				2014	2013
REVENUES:					
Student tuition and fees	\$ 1,904,494	\$ -	\$ -	\$ 1,904,494	\$ 2,067,626
Less scholarships, fellowships and other assistance	(1,036,623)	-	-	(1,036,623)	(1,459,471)
Net tuition and fees	867,871	-	-	867,871	608,155
Contributions	2,200,222	95,000	-	2,295,222	2,891,726
Investment return (note 2)	2,126,002	(322,914)	831,411	2,634,499	2,235,252
Change in value of split-interest agreements	-	(104,529)	-	(104,529)	(47,563)
Rental income	1,139,876	-	-	1,139,876	1,129,580
Other income	433,912	-	-	433,912	163,303
TOTAL REVENUES	6,767,883	(332,443)	831,411	7,266,851	6,980,453
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	6,980,453
EXPENSES:					
Instruction	2,810,400	-	-	2,810,400	3,933,471
Academic support	623,305	-	-	623,305	872,150
Sponsored programs	467,300	-	-	467,300	689,858
Student services	898,427	-	-	898,427	1,223,958
Institutional support	1,891,587	-	-	1,891,587	2,549,910
Plant operation and maintenance	2,068,725	-	-	2,068,725	2,250,091
Community service	467,102	-	-	467,102	544,922
TOTAL EXPENSES (note 11)	9,226,846	-	-	9,226,846	12,064,360
INCREASE (DECREASE) IN NET ASSETS BEFORE WRITE-OFF OF PLEDGE RECEIVABLE AND REDESIGNATION	(762,307)	(2,029,099)	831,411	(1,959,995)	(5,083,907)
LOSS ON WRITE-OFF OF PLEDGE RECEIVABLE	(132,043)	-	-	(132,043)	(400,000)
INCREASE (DECREASE) IN NET ASSETS AFTER WRITE-OFF OF PLEDGE RECEIVABLE	(894,350)	(2,029,099)	831,411	(2,092,038)	(5,483,907)
NET ASSETS- BEGINNING OF YEAR	652,487	3,402,011	34,174,180	38,228,678	43,712,585
NET ASSETS- END OF YEAR	\$ (241,863)	\$ 1,372,912	\$ 35,005,591	\$ 36,136,640	\$ 38,228,678

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2013

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES:				
Student tuition and fees	\$ 2,067,626	\$ -	\$ -	\$ 2,067,626
Less scholarships, fellowships and other assistance	(1,459,471)	-	-	(1,459,471)
Net tuition and fees	608,155	-	-	608,155
Contributions	2,047,489	657,585	186,652	2,891,726
Investment return (note 2)	2,038,528	(149,870)	346,594	2,235,252
Change in value of split-interest agreements	0	(47,563)	-	(47,563)
Rental income	1,129,580	-	-	1,129,580
Other	163,303	-	-	163,303
TOTAL REVENUES	5,987,055	460,152	533,246	6,980,453
Net assets released from restrictions (note 12)	4,976,139	(4,976,139)	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	10,963,194	(4,515,987)	533,246	6,980,453
EXPENSES:				
Instruction	3,933,471	-	-	3,933,471
Academic support	872,150	-	-	872,150
Sponsored programs	689,858	-	-	689,858
Student services	1,223,958	-	-	1,223,958
Institutional support	2,549,910	-	-	2,549,910
Plant operation and maintenance	2,250,091	-	-	2,250,091
Community service	544,922	-	-	544,922
TOTAL EXPENSES (note 11)	12,064,360	-	-	12,064,360
INCREASE (DECREASE) IN NET ASSETS BEFORE WRITE-OFF OF PLEDGE RECEIVABLE AND REDESIGNATION	(1,101,166)	(4,515,987)	533,246	(5,083,907)
LOSS ON WRITE-OFF OF PLEDGE RECEIVABLE	-	-	(400,000)	(400,000)
RE-DESIGNATION (note 1)	(503,140)	503,140	-	-
INCREASE (DECREASE) IN NET ASSETS AFTER WRITE-OFF OF PLEDGE RECEIVABLE AND REDESIGNATION	(1,604,306)	(4,012,847)	133,246	(5,483,907)
NET ASSETS- BEGINNING OF YEAR	2,256,793	7,414,858	34,040,934	43,712,585
NET ASSETS- END OF YEAR	\$ 652,487	\$ 3,402,011	\$ 34,174,180	\$ 38,228,678

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

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2014 and 2013

CASH FLOWS from OPERATING ACTIVITIES:	<u>2014</u>	<u>2013</u>
Change in Net Assets from Operating Activities	\$ (2,092,038)	\$ (5,483,907)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	770,560	703,670
Net realized and unrealized (gains) losses on investments	(2,434,828)	(1,892,175)
Contributions restricted for long-term purposes	-	(186,652)
Forgiveness of notes and loans payable	(150,000)	(150,000)
(Increase) decrease in operating assets:		
Accounts receivable, net	(130,140)	55,278
Related parties and employee loans	(50,000)	-
Pledges receivable	1,304,623	1,536,514
Student loans, net	106,399	103,049
Prepaid expense and other assets	(57,819)	3,128
Receivable from Claremont Lincoln University	(448,966)	-
Beneficiary interest in split-interest agreements	(616,038)	(121,957)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(191,658)	295,991
Payable to Claremont Lincoln University	(625,098)	625,098
Student deposits	(14,304)	9,615
Unearned revenue	(4,760)	-
Liability under split-interest agreements	(214,206)	(46,197)
Net cash used in operating activities	<u>(4,848,273)</u>	<u>(4,548,545)</u>
CASH FLOWS from INVESTING ACTIVITIES:		
Purchase of property and equipment	(428,387)	(567,732)
Proceeds from sale of investments	5,465,515	6,553,151
Purchase of investments	(629,781)	(1,716,426)
Net cash provided by investing activities	<u>4,407,347</u>	<u>4,268,993</u>
CASH FLOWS from FINANCING ACTIVITIES:		
Borrowings on line of credit	-	510,094
Principal payments on note and loan payable	(86,522)	(78,759)
Contributions restricted for long-term purposes	-	186,652
Net cash (used in) provided by financing activities	<u>(86,522)</u>	<u>617,987</u>
Net (decrease) increase in cash and cash equivalents	(527,448)	338,435
Cash and cash equivalents at the beginning of the year	<u>1,272,068</u>	<u>933,633</u>
Cash and cash equivalents at the end of the year	<u>\$ 744,620</u>	<u>\$ 1,272,068</u>
Recap of cash and cash equivalents:		
Cash and cash equivalents	\$ 707,857	\$ 921,048
Restricted cash	36,763	351,020
	<u>\$ 744,620</u>	<u>\$ 1,272,068</u>
Cash paid for interest	<u>\$ 190,326</u>	<u>\$ 231,756</u>
NONCASH TRANSACTION:		
Forgiveness of notes and loans payable	<u>\$ 150,000</u>	<u>\$ 150,000</u>

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

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.

In 2008, the School initiated the University Project, a multi-faith collaboration among the School, the Academy for Jewish Religion-CA and the Islamic Center of Southern California. The three partners signed a Memorandum of Understanding (“MOU”) in 2010, agreeing to create a future university comprised of multiple faith traditions learning and working together. The University Project was incorporated as Claremont Lincoln University (“University”) in December 2010, but continued to be incubated by the School as a Division within it. During this extended period of incubation, the School has provided to the University time and effort related to academic and administrative support. The services were provided to support day-to-day operations of the University, which included delivery of academic programs to 30 degree-seeking students; administrative and management support, and support of co-curricular and public programs related to the University’s programmatic and public service goals; institutional formation and governance; and institutional control. The School’s provision of expertise and capacity in these matters supports the complementary missions of both institutions, and greatly facilitates the rapid development of the new university. See subsequent events on page 12.

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.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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.

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.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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.

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.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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.

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.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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.

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.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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, 2014, approximately 88% of the total pledges receivable was due from one donor. As of June 30, 2013, approximately 94% of the total pledges receivable was due from three donors. Management believes realization losses on pledges receivable amounts at the end of 2014 and 2013 were 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.

Re-designation

Re-designation represents transfer between net asset categories to conform to current donor restrictions related to allocation of expenses to the University.

Subsequent Events

As of July 1, 2014, the School and the University have separated operations except for an agreement within which the University and its faculty, students and staff have full access to all of the School's library resources and services for the fiscal year ending June 30, 2015. Also, within the agreement, the School has agreed to assume full educational responsibility for all former University students, except for those in the Ethical Leadership program, and to allow any current or former University students to receive a degree accredited by the School. Through the agreement, all PhD and M.A. programs, except the Ethical Leadership program, that were previously offered through the University were transferred back to the School. The University paid the School \$2.5 million in July 2014 for the access to the School's library resources and services and for the School's assumption of the student education responsibility related to the transferred programs.

On July 8, 2014, the School sold land located in Blythe, California for \$997,500. This land was previously donated to the School and included in land held for sale (see Note 6).

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

Subsequent events have been evaluated through March 13, 2015, 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.

NOTE 2 – INVESTMENTS:

The composition of investments, stated at fair value at June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Cash and money market accounts	\$ 645,348	\$ 736,492
Money market funds	904	87,767
Mutual funds	184,585	67,386
Certificate of deposit	2,536,922	2,410,578
Corporate equities:		
Consumer discretionary	1,022,297	1,195,669
Consumer staples	396,952	580,449
Energy	520,036	611,606
Financials	1,322,692	1,390,053
Healthcare	1,021,230	1,243,533
Industrials	748,216	851,580
Information technology	1,033,804	1,172,757
Materials	319,239	384,049
Telecommunication services	152,693	229,506
Utilities	62,362	32,409
Fixed income:		
Long-term bond	63,981	212,382
Intermediate-term bond	391,830	830,500
Short-term bond	525,824	829,276
Fixed income bond	269,696	753,525
Total investments	<u>\$ 11,218,611</u>	<u>\$ 13,619,517</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 – INVESTMENTS: (continued)

The composition of investment return for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Dividends and interest	\$ 199,671	\$ 343,077
Net realized and unrealized gain	<u>2,434,828</u>	<u>1,892,175</u>
Total investment return	<u><u>\$ 2,634,499</u></u>	<u><u>\$ 2,235,252</u></u>

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, 2014 and 2013:

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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	10,015,459	-	-	10,015,459
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	1,764,313	-	1,441,515	322,798
Total split-interest agreements	\$ 12,327,257	\$ -	\$ 1,989,000	\$ 10,338,257

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

2013	Total	Level 1	Level 2	Level 3
Cash and money market accounts	\$ 736,492	\$ 736,492	\$ -	\$ -
Money market funds	87,767	87,767	-	-
Certificate of deposit	2,410,578	-	2,410,578	-
Mutual funds	67,386	67,386	-	-
Corporate equities:				
Consumer discretionary	1,195,669	1,195,669	-	-
Consumer staples	580,449	580,449	-	-
Energy	611,606	611,606	-	-
Financials	1,390,053	1,390,053	-	-
Healthcare	1,243,533	1,243,533	-	-
Industrials	851,580	851,580	-	-
Information technology	1,172,757	1,172,757	-	-
Materials	384,049	384,049	-	-
Telecommunication services	229,506	229,506	-	-
Utilities	32,409	32,409	-	-
Fixed income:				
Long-term bond	212,382	-	212,382	-
Intermediate-term bond	830,500	-	830,500	-
Short-term bond	829,276	-	829,276	-
Fixed income bond	753,525	-	753,525	-
Total investments	\$ 13,619,517	\$ 8,583,256	\$ 5,036,261	\$ -

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

2013	Total	Level 1	Level 2	Level 3
Split-Interest Agreements:				
Gift annuities	\$ 754,058	\$ -	\$ 754,058	\$ -
Perpetual trusts:				
United Methodist Foundation of Sun City	7,492,303	-	-	7,492,303
Los Angeles United Methodist Foundation	1,000,000	-	-	1,000,000
Floy Van Nuys Trust	691,745	-	-	691,745
Total perpetual trusts	9,184,048	-	-	9,184,048
Charitable remainder trusts:				
Spaelstra Trust	441,275	-	-	441,275
Balkins Trust managed by Wells Fargo	676,886	-	676,886	-
Trusts managed by Clifford Swan	654,952	-	654,952	-
Total charitable remainder trusts	1,773,113	-	1,331,838	441,275
Total split-interest agreements	\$ 11,711,219	\$ -	\$ 2,085,896	\$ 9,625,323

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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, 2014 and 2013:

2014	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	\$ 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
Spiegelstra Trust	441,275	(118,477)	-	-	322,798
Total	\$ 9,625,323	\$ 712,934	\$ -	\$ -	\$ 10,338,257
<hr/>					
2013					
Split-Interest Agreements:					
United Methodist Foundation of Sun City	\$ 7,163,017	\$ 329,286	\$ -	\$ -	\$ 7,492,303
Los Angeles United Methodist Foundation	1,000,000	-	-	-	1,000,000
Floy Van Nuys Trust	674,438	17,307	-	-	691,745
Spiegelstra Trust	443,146	(1,871)	-	-	441,275
Total	\$ 9,280,601	\$ 344,722	\$ -	\$ -	\$ 9,625,323

The amount attributable to the change in unrealized gains (losses) relating to assets still held at year end was \$712,934 and \$344,722 for the years ended June 30, 2014 and 2013, respectively.

NOTE 4 – PLEDGES RECEIVABLE:

As of June 30, 2014 and 2013, pledges receivable, net of discount to present value (at discount rates 4% to 7%), were as follows:

	2014	2013
Within one year	\$ 706,418	\$ 997,000
Within two and five years	799,000	1,445,605
Thereafter	188,525	487,178
Gross pledges receivable	1,693,943	2,929,783
Less allowance for uncollectible pledges	(480,000)	(347,957)
Less discount to present value	(160,066)	(223,326)
Total	\$ 1,053,877	\$ 2,358,500

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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, 2014 and 2013, were \$26,100 and \$40,300, respectively, from the California-Pacific Annual Conference and \$32,885 and \$43,524, respectively, from the Desert Southwest Annual Conference.

At June 30, 2014 and 2013, the outstanding balances of loans to an officer and some faculty members of the School aggregated \$400,000 and \$350,000, 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Blythe, California	\$ 665,000	\$ 665,000
Barstow, California	135,765	135,765
Other	<u>34,500</u>	<u>34,500</u>
Total	<u>\$ 835,265</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. See Note 1 for subsequent events.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 7 –SPLIT-INTEREST AGREEMENTS:

The composition of beneficiary interest in split-interest agreements, stated at fair value at June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Perpetual Trusts:		
United Methodist Foundation of Sun City	\$ 8,243,261	\$ 7,492,303
Los Angeles United Methodist Foundation	1,000,000	1,000,000
Floy Van Nuys Trust	772,198	691,745
Total Perpetual Trusts	<u>10,015,459</u>	<u>9,184,048</u>
Charitable Remainder Trusts:		
Spoelstra Trust	322,798	441,275
Trusts Administered by the School:		
Balkans Trust	744,911	676,886
Other Trusts	696,604	654,952
Total Charitable Remainder Trusts	<u>1,764,313</u>	<u>1,773,113</u>
Gift Annuities - Administered by the School	<u>547,485</u>	<u>754,058</u>
Total Beneficiary Interest in Split-Interest Agreements	<u>\$ 12,327,257</u>	<u>\$ 11,711,219</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, 2014 and 2013, was 6%.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 8 – PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 315,253	\$ 315,253
Buildings and improvements	18,059,749	18,059,749
Furniture and fixtures	2,174,172	2,174,172
Equipment and vehicles	3,371,550	3,225,846
Library books	4,881,308	4,598,850
Other	12,791	15,601
Total	<u>28,814,823</u>	<u>28,389,471</u>
Less: accumulated depreciation	<u>(13,320,813)</u>	<u>(12,553,288)</u>
Total Property and Equipment, net	<u>\$ 15,494,010</u>	<u>\$ 15,836,183</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 2014 and 2013, and expired on June 18, 2014. The line of credit was renewed and will expire on July 15, 2015. At June 30, 2014 and 2013, the outstanding balance under the line of credit was \$1,497,824.

NOTE 10 – NOTE AND LOAN PAYABLE:

At June 30, 2014 and 2013, the School has an unsecured note payable to Watson Family Trust for \$1,088,525 and \$1,238,525, 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, 2014 and 2013, the School had a secured loan payable to United Methodist Federal Credit Union totaling \$1,963,620 and \$2,050,142, respectively. The loan is secured by the campus building and bears interest which is adjustable starting at 6.0% tied to five-year Treasury-Bill plus a margin of 2.5% with monthly principal and interest payments of \$17,396 through July 31, 2023.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 10 – NOTES AND LOANS PAYABLE: (continued)

Scheduled principal payments on the above debt at June 30, 2014 are expected to be paid by the School as follows:

<u>Year Ending June 30</u>		
2015	\$	240,618
2016		246,346
2017		252,436
2018		258,910
2019		265,765
Therafter		<u>1,788,070</u>
Total	\$	<u><u>3,052,145</u></u>

NOTE 11 – FUNCTIONAL EXPENSES:

The functional allocation of expenses for the years ended June 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Program Expenses	\$ 6,696,000	\$ 8,880,775
General and Administrative	1,272,602	1,630,758
Fundraising	<u>1,258,244</u>	<u>1,552,827</u>
Total	<u><u>\$ 9,226,846</u></u>	<u><u>\$ 12,064,360</u></u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 12 – NET ASSETS:

At June 30, 2014 and 2013, temporarily restricted net assets were available for the following purposes:

	<u>2014</u>	<u>2013</u>
School projects and salary support	\$ 858,375	\$ 1,266,427
Split-interest agreements	288,428	715,871
Time restriction	154,721	152,721
University project	48,888	1,164,492
Other	22,500	22,500
Scholarships	-	80,000
Total Temporarily Restricted Net Assets	<u>\$ 1,372,912</u>	<u>\$ 3,402,011</u>

Amounts released from temporary restrictions during the years ended June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
University project	\$ 1,115,604	\$ 4,301,891
School projects and salary support	408,052	214,465
Time restriction	93,000	56,483
Scholarships	80,000	400,000
Other	-	3,300
Total	<u>\$ 1,696,656</u>	<u>\$ 4,976,139</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, 2014 and 2013, the School incurred costs of \$1,115,604 and \$5,108,045, respectively, on behalf of the 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. The 2013 releases of \$4,301,891 for the University Project include an adjustment of \$806,154 for the correction of an estimate in the allocation of expenses between the University and the School.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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, 2014 and 2013, in total and by type of endowment fund, showing donor-restricted endowment funds are as follows:

<u>2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor- restricted endowment funds	<u>\$ (15,684,139)</u>	<u>\$ -</u>	<u>\$ 35,005,591</u>	<u>\$ 19,321,452</u>
<u>2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor- restricted endowment funds	<u>\$ (13,106,576)</u>	<u>\$ -</u>	<u>\$ 34,174,180</u>	<u>\$ 21,067,604</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 13 – ENDOWMENT: (continued)

Changes in endowment assets for the year ended June 30, 2014 and 2013, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2012	\$ (10,005,068)	\$ -	\$ 34,040,934	\$ 24,035,866
Net appreciation (realized and unrealized)	2,007,785	-	346,594	2,354,379
Contributions (during the year)	-	-	186,652	186,652
Appropriation of endowment assets for expenditure *	(1,159,293)	-	-	(1,159,293)
Borrowings from endowment	(3,950,000)	-	-	(3,950,000)
Loss on write-off of pledge receivable	-	-	(400,000)	(400,000)
Endowment net assets, June 30, 2013	<u>(13,106,576)</u>	<u>-</u>	<u>34,174,180</u>	<u>21,067,604</u>
Net appreciation (realized and unrealized)	1,592,681	-	831,411	2,424,092
Borrowings from endowment	(2,947,254)	-	-	(2,947,254)
Appropriation of endowment assets for expenditure *	<u>(1,222,990)</u>	<u>-</u>	<u>-</u>	<u>(1,222,990)</u>
Endowment net assets, June 30, 2014	<u>\$ (15,684,139)</u>	<u>\$ -</u>	<u>\$ 35,005,591</u>	<u>\$ 19,321,452</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, 2014 and 2013, the cumulative borrowings from the endowment pool were \$9,675,167 and \$6,727,913, respectively.

At June 30, 2014, the School’s endowment was deficient, or “underwater,” by \$15,684,139, reflecting annual appropriations per School’s investment policy totaling \$1,222,990. At June 30, 2013, the endowment was deficient, or “underwater,” by \$13,106,476, reflecting annual appropriations per School’s investment policy totaling \$1,159,293.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 14 – RETIREMENT PLAN:

The School participates in a defined contribution plan for its faculty, administrators, and staff. Under the plan, the School contributed \$534,383 and \$495,255 for the years ended June 30, 2014 and 2013, respectively. Such contribution is calculated based on 6% of salaries for employees that have been with the School for 90 days to four years and 12% of salaries for employees that have been with the School for more than four years. Contribution to faculty are determined by rank (6% for assistant professors, 12% for associate professors and professors).

NOTE 15 – COLLECTION ITEMS:

The School's collections are made up of artifacts of historical significance and art objects that are held for educational, research, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections.

During June 2000, a significant number of Asian artifacts were contributed to the School, with a restriction that limited any future proceeds from deaccessions to acquisitions of artifacts from a similar period. No collection items were deaccessioned or destroyed as of June 30, 2014 and 2013.

NOTE 16 – COMMITMENTS:

The School has lease agreements for certain office equipment to be payable through June 30, 2015. Future minimum lease for the year ending June 30, 2015 is \$13,221.

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, 2014 and 2013, the lease liability was \$151,842 and \$193,662, respectively.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 17 – CONDITIONAL ASSET RETIREMENT OBLIGATIONS:

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

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

NOTE 18 – 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, 2013 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 \$1,178,624 has been issued by United Methodist Federal Credit Union on August 11, 2014 which will expire on September 30, 2015.

**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, 2014, and have issued our report thereon dated March 13, 2015. 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 14-1 and 14-2 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.



STANISLAWSKI & HARRISON

March 13, 2015

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

14-1 Audit Adjustments

2012 Finding: We proposed, and management concurred and recorded in School's accounting records, two audit adjustments, as follows:

- The forgiveness of the loan balance (\$150,000 per year over nine years) should have been recognized as contribution revenue in the current year and amortized over the term of the forgiveness. The School only recorded the portion that related to the year ended June 30, 2012 (i.e., 150,000).
- The School did not reconcile its general ledger balance for Perkins Loans to the detailed records maintained by the Department of Education. This resulted in an adjustment as well as a noncompliance finding in the School's Single Audit Report.

2012 Recommendation: We recommend that the School comply with recognition guidance for unconditional promises to give (FASB ASC 958-605-25) which require recognition at the time of the receipt of the promise.

We also recommend the periodic reconciliation of Perkins Loan balances to subsidiary records maintained by the Department of Education.

2012 Management Response: As noted in the finding, management concurred and recorded the change to the treatment of the loan forgiveness. The donor explicitly asked that the loan forgiveness not be recorded as a pledge, but the donor's intent to pledge is clear.

On the matter of Perkins loan program, management concurs that this program will require further reconciliation and oversight to ensure that such deficiencies do not occur. Regular, periodic reconciliation of government records and of third party servicer records to the School records will be performed. Management recognizes that the Perkins loan deficiency will appear on the Single Audit Report.

2013 Auditor's Update: In 2013, the School did not report \$12,000 of Perkins Loan disbursements to the Department of Education on a timely basis.

2013 Management Update: Management recognizes this mistake. It was an oversight by an employee who was new to the process. Additional training has been provided to the employee to improve the employee's knowledge of the Perkins processes to ensure that this will not happen in the future.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
June 30, 2014

14-1 Audit Adjustments (Continued)

2014 Auditor's Update: We proposed several adjustments and management concurred and recorded the adjustments.

2014 Management Update: As noted, management concurred with the proposed adjustments and has recorded the same.

14-2 Depreciation Calculation

2013 Finding: 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.

2013 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. The School should also review the useful lives of its assets to determine if the years used are reasonable.

2013 Management Response: Management concurs with the Auditor's recommendation. A more detailed schedule, broken out by different asset classes with different depreciation schedules will be created and maintained. Management will explore the implementation of a fixed asset module added to the accounting software system.

2014 Auditor's Update: Per review of the detailed depreciation schedule, it was noted that the calculation on depreciation expense for books had a calculation error and computers and equipment was over depreciated. Formula on schedule was corrected and depreciation expense was adjusted accordingly. In addition, the useful lives on computers and equipment were shortened from 12 years to 3 years.

2014 Management Update: Management recognizes the errors in the depreciation schedule. As of March 2015, management is speaking with its general ledger vendor about acquiring the necessary fixed asset module. This solution was to be explored last year, as noted in the 2013 management response. The retirement of the prior controller and the hiring of his replacement delayed the project.