SOUTHERN CALIFORNIA SCHOOL OF THEOLOGY
(dba CLAREMONT SCHOOL OF THEOLOGY)
FINANCIAL STATEMENTS
June 30, 2010 and 2009
And For The Years Then Ended

Together with Independent Auditor's Report

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

CONTENTS
June 30, 2010 and 2009

	Page
AUDITOR'S REPORT:	
Independent Auditor's Report	i
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*	ii-iii
FINANCIAL STATEMENTS:	
Statements of Financial Position	1
Statements of Activities	2-3
Statements of Cash Flows	4
NOTES TO FINANCIAL STATEMENTS	5-23

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 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") as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the School. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standard,* 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School, as of June 30, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated December 10, 2010 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 *Government Auditing Standards* and should be considered in assessing the results of our audits.

Stanislawski & Harrison

Stanislawski & Harrison
December 10, 2010

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

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

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purposes of 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.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. We consider the deficiencies described in the schedule of findings and questioned costs as findings 10-4 through 10-6 to be significant deficiencies.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control. We consider the deficiencies described in the schedule of findings and questioned costs 10-1 through 10-3 to be material weaknesses in internal control over financial reporting.

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

(Continued)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters which are required to be reported under Government Auditing Standard and which are described in the schedule of findings and questioned costs as item 2010-1.

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

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

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

Stanislawski & Harrison

STANISLAWSKI & HARRISON
December 10, 2010

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

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2010 and 2009

ASSETS:	2010	2009
Cash and cash equivalents	$ 1,587,661	$ 374,521
Investments (notes 2 and 3)	17,036,521	17,140,967
Pledges receivable, net (note 4)	6,258,356	3,747,124
Other receivables:		
Accounts, net of allowance for doubtful accounts of $71,524 in 2010 and 2009	131,449	150,544
Related parties and employee loans (note 5)	401,361	375,000
Student loans, net of allowance for doubtful accounts of $147,350 in 2010 and 2009	287,722	203,494
Prepaid expense and other assets	65,927	73,812
Land held for sale (note 6)	835,265	835,265
Beneficiary interest in split interest agreements (notes 3 and 7)	11,059,787	11,068,083
Property and equipment, net of accumulated depreciation (note 8)	16,493,091	16,920,292
Collection items (note 15)	-	-
Total assets	$ 54,157,140	$ 50,889,102
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	$ 270,915	$ 472,577
Line of credit (note 9)	1,499,381	1,200,000
Student deposits	98,424	118,834
Unearned revenue	83,366	96,042
Advances from the federal government	308,159	308,159
Notes and loans payable (note 10)	4,281,754	4,589,168
Liability under split-interest agreements (note 1)	2,009,197	1,941,354
Total liabilities	8,551,196	8,726,134
Net assets:		
Unrestricted	4,839,447	4,942,859
Temporarily restricted (note 12)	7,713,410	5,567,986
Permanently restricted (note 12)	33,053,087	31,652,123
Total net assets	45,605,944	42,162,968
Total liabilities and net assets	$ 54,157,140	$ 50,889,102

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, 2010
With comparative totals for the year ended June 30, 2009

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total 2010	Total 2009
REVENUES:					
Student tuition and fees	$ 2,484,151	$ -	$ -	$ 2,484,151	$ 2,363,514
Less scholarships, fellowships and other assistance	(1,017,937)	-	-	(1,017,937)	(881,005)
Net tuition and fees	1,466,214	-	-	1,466,214	1,482,509
Contributions	3,214,704	4,500,151	941,322	8,656,177	3,868,930
Investment return (note 2)	1,460,752	(33,430)	321,115	1,748,437	(4,236,997)
Change in value of split-interest agreements	(29,598)	13,158	138,527	122,087	8,947
Rental income	972,582	-	-	972,582	1,179,955
Other	200,627	-	-	200,627	460,683
TOTAL REVENUES	7,285,281	4,479,879	1,400,964	13,166,124	2,764,027
Net assets released from restrictions (note 12)	2,334,455	(2,334,455)	-	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	9,619,736	2,145,424	1,400,964	13,166,124	2,764,027
EXPENSES:					
Instruction	2,785,979	-	-	2,785,979	2,617,518
Academic support	552,103	-	-	552,103	551,260
Sponsored programs	522,839	-	-	522,839	549,604
Student services	912,159	-	-	912,159	718,308
Institutional support	2,786,559	-	-	2,786,559	2,720,127
Plant operation and maintenance	1,855,465	-	-	1,855,465	1,803,077
Community Service	308,044	-	-	308,044	336,141
TOTAL EXPENSES (note 11)	9,723,148	-	-	9,723,148	9,296,035
INCREASE (DECREASE) IN NET ASSETS	(103,412)	2,145,424	1,400,964	3,442,976	(6,532,008)
NET ASSETS- BEGINNING OF YEAR	4,942,859	5,567,986	31,652,123	42,162,968	48,694,976
NET ASSETS- END OF YEAR	$ 4,839,447	$ 7,713,410	$ 33,053,087	$ 45,605,944	$ 42,162,968

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

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2009

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

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 years ended June 30, 2010 and 2009

CASH FLOWS from OPERATING ACTIVITIES:	**2010**	**2009**
Change in Net Assets from Operating Activities	$ 3,442,976	$ (6,532,008)
Adjustments to reconcile change in net assets to net cash provided		
(used) by operating activities:		
Depreciation	633,922	574,999
Net realized and unrealized (gains) losses on investments	(1,309,473)	4,863,859
Contributions restricted for long-term purposes	(941,322)	(427,900)
(Increase) decrease in operating assets:		
Accounts receivable, net	19,095	16,346
Pledges receivable	(2,511,232)	559,158
Related parties receivables	(26,361)	57,000
Student loans receivable, net	(84,228)	(79,935)
Prepaid expense	7,885	17,329
Beneficiary interest in split interest agreements	(332,546)	597,480
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(201,662)	196,220
Student deposits	(20,410)	9,474
Unearned revenue	(12,676)	(36,785)
Liability under split-interest agreements	67,843	(479,611)
Net cash used in operating activities	(1,268,189)	(664,374)
CASH FLOWS from INVESTING ACTIVITIES:		
Purchase of property and equipment	(206,721)	(212,219)
Proceeds from sale of investments	3,797,241	4,725,643
Purchase of investments	(2,042,480)	(4,890,862)
Net cash provided by (used in) investing activities	1,548,040	(377,438)
CASH FLOWS from FINANCING ACTIVITIES:		
Net advances (payments) under line of credit arrangement	299,381	900,000
Principal payments on loans and notes payable	(307,414)	(273,380)
Contributions restricted for long-term purposes	941,322	427,900
Net cash provided by financing activities	933,289	1,054,520
Net increase in cash and cash equivalents	1,213,140	12,708
Cash and cash equivalents at the beginning of the year	374,521	361,813
Cash and cash equivalents at the end of the year	$ 1,587,661	$ 374,521
Cash paid for interest	$ 268,327	$ 223,469

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

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

Basis of Presentation

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

Accounting

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

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

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

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

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

Endowment - Return Objectives and Risk Parameters

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the School must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The School expects its endowment funds, over time, to provide an average rate of return of no less than inflation plus 5 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The School targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment Spending Policy

The School has a policy of appropriating for distribution each year an amount which is calculated by multiplying the Board-Authorized Percentage (BAP) of 6.5% with the 12-Quarter Mean Endowment Pool Value as of December 31 (MEV). This is consistent with the School's objective to support the School's cash needs as described in the annual budget and maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Cash and Cash Equivalents

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

Investments

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

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

Fair Value Measurements

Fair Value Standards (ASC 820-10) establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring fair value. This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

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

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

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

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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

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.

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 Internal Revenue Service. The School records the obligations as "liability under split-interest agreements" based on the terms of the trust agreements. The discount rate used for the year ended June 30, 2010 and 2009, was 6%. The net assets associated with these trusts are reflected in temporarily and permanently restricted net assets.

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

The School also administers charitable gift annuities in which a donor contributes assets to the School in exchange for a promise by the School to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. The obligations under the gift annuity are based on life expectancy provided in the 1994 Group Annuity Mortality (GAM) Tables. The School records the obligations as "liability under split-interest agreements" based on the terms of the annuities. The discount rate used for the year ended June 30, 2010 and 2009, 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.

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.

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

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.

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.

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

The FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB No. 109 (FIN 48), which is included in ASC 740-10. FIN 48 provides guidance on how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires evaluation of tax positions taken in the course of preparing the Institute's tax returns to determine whether tax positions are "more-likely-than-not" of having been sustained by the applicable tax authority. The School adopted FIN 48 effective July 1, 2009. The School believes that it does not have any uncertain tax positions that impact the School's financial position or statement of activities.

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, 2010 and 2009, one donor accounted for 98% and 87% of the School's pledges receivable balance, respectively. However, management believes realization losses on pledges receivable amounts at the end of 2010 will be immaterial. Concentration of credit risk for student receivables is generally limited due to the dispersion of these items over a wide creditor base. The School continually monitors its receivables and establishes valuation reserves as considered appropriate.

Use of Accounting Estimates

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

New Accounting Pronouncements

In June 2009, the FASB approved the FASB Accounting Standards Codification (FASB ASC) to become the single source of authoritative U.S. GAAP (other than guidance issued by the SEC) superseding all then-existing non-SEC accounting and reporting standards. The FASB ASC does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP through the introduction of a new structure providing all authoritative literature by topic in one place.

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

In September 2009, the FASB issued FASB Accounting Standards Update No. 2009-12, Investment in Certain Entities That Calculate Net Asset Value per Share (ASU 2009-12). ASU 2009-12 (formerly FAS 157-g) amends FASB Statement No. 157, Fair Value Measurements, adds disclosures, and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient for fair value where investment companies follow the American institute of certified Public Accountants (AICPA) Guide in arriving at their reported NAV. The School adopted ASU 2009-12 effective July 1, 2009.

NOTE 2 – INVESTMENTS:

The composition of investments, stated at fair value at June 30, 2010 and 2009, is as follows:

	2010	2009
Money Market Accounts	$ 1,688,541	$ 2,452,705
Certificate of deposit	1,546,761	1,584,291
Corporate Equities	9,129,037	10,027,482
Fixed Income:		
United States Treasury Notes	712,448	1,698,159
Corporate notes and bonds	2,055,865	1,378,330
Mutual funds	1,903,869	-
Total investments	$ 17,036,521	$ 17,140,967

The composition of investment return for the years ended June 30, 2010 and 2009 is as follows:

	2010	2009
Dividends and interest	$ 438,964	$ 626,862
Net realized and unrealized gain (loss)	1,309,473	(4,863,859)
Total investment return	$ 1,748,437	$ (4,236,997)

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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, 2010 and June 30, 2009:

2010	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Money market accounts	$ 1,688,541	$ 1,688,541	$ -	$ -
Certificate of deposit	1,546,761	-	1,546,761	-
Corporate equities:				
Healthcare	1,564,331	1,564,331	-	-
Consumer staples	635,811	635,811	-	-
Information technology	1,656,798	1,656,798	-	-
Consumer discretionary	806,367	806,367	-	-
Industrials	362,294	362,294	-	-
Materials	678,457	678,457	-	-
Financials	1,615,821	1,615,821	-	-
Telecommunication Srvcs	739,244	739,244	-	-
Utilities	311,550	311,550	-	-
Energy	907,869	907,869	-	-
Fixed Income:				
Long-Term bond	2,201,509	1,283,652	917,857	-
Intermediate-Term bond	819,792	249,586	570,206	-
Short-Term bond	1,396,950	829,118	567,832	-
Fixed income bond	104,426	104,426	-	-
Total Investments	$ 17,036,521	$ 13,433,865	$ 3,602,656	$ -

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

<u>NOTE 3 – FAIR VALUE MEASUREMENTS:</u> (continued)

2010	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Split Interest Agreements:				
Gift Annuities managed by CALPAC	$ 1,140,254	$ 1,140,254	$ -	$ -
Perpetual Trusts:				
United Methodist Foundation of Sun City	6,254,445	-	-	6,254,445
Los Angeles United Methodist Foundation	1,000,000	-	-	1,000,000
Floy Van Nuys Trust	611,694	-	611,694	-
Total Perpetual Trusts	7,866,139	-	611,694	7,254,445
Charitable Remainder Trusts:				
Elizabeth Smith Trust	115,823	-	115,823	-
Spoelstra Trust	603,767	-	-	603,767
Balkins Trust managed by Wells Fargo	604,754	-	604,754	-
Trusts managed by Clifford Swan	729,050	-	729,050	-
Total Charitable Remainder Trusts	2,053,394	-	1,449,627	603,767
Total Split Interest Agreements	$ 11,059,787	$ 1,140,254	$ 2,061,321	$ 7,858,212

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

2009	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Money market accounts and mutual funds	$ 2,452,705	$ 2,452,705	$ -	$ -
Certificate of deposit	1,584,291	-	1,584,291	-
Government securities	1,698,159	1,698,159	-	-
Corporate stocks	10,027,482	10,027,482	-	-
Corporate notes and bonds	1,378,330	-	1,378,330	-
Total Investments	$ 17,140,967	$ 14,178,346	$ 2,962,621	$ -
Split Interest Agreements:				
Gift Annuities managed by CALPAC	$ 1,556,040	$ 1,556,040	$ -	$ -
Perpetual Trusts:				
United Methodist Foundation of Sun City	5,958,552	-	-	5,958,552
Los Angeles United Methodist Foundation	1,000,000	-	-	1,000,000
Floy Van Nuys Trust	586,472	-	586,472	-
Total Perpetual Trusts	7,545,024	-	586,472	6,958,552
Charitable Remainder Trusts:				
Elizabeth Smith Trust	91,926	-	91,926	-
Spoelstra Trust	611,983	-	-	611,983
Balkins Trust managed by Wells Fargo	542,650	-	542,650	-
Trusts managed by Clifford Swan	720,460	-	720,460	-
Total Charitable Remainder Trusts	1,967,019	-	1,355,036	611,983
Total Split Interest Agreements	$ 11,068,083	$ 1,556,040	$ 1,941,508	$ 7,570,535

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

The following is the activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2010 and June 30, 2009:

2010	Beginning Balance 6/30/09	Total unrealized gains or losses	Purchases, issuances, and settlements	Transfers in and / or out of Level 3	Ending Balance 6/30/10
Split Interest Agreements:					
United Methodist Foundation of Sun City	$ 5,958,552	$ 295,893	$ -	$ -	$ 6,254,445
Los Angeles United Methodist Foundation	1,000,000	-	-	-	1,000,000
Spoelstra Trust	611,983	(8,216)	-	-	603,767
Total	$ 7,570,535	$ 287,677	-	$ -	$ 7,858,212

2009	Beginning Balance 6/30/08	Total unrealized losses	Purchases, issuances, and settlements	Transfers in and / or out of Level 3	Ending Balance 6/30/09
Split Interest Agreements:					
United Methodist Foundation of Sun City	$ 6,593,629	$ (635,077)	$ -	$ -	$ 5,958,552
Los Angeles United Methodist Foundation	1,000,000	-	-	-	1,000,000
Spoelstra Trust	-	-	611,983	-	611,983
Total	$ 7,593,629	$ (635,077)	$ 611,983	$ -	$ 7,570,535

NOTE 4 – PLEDGES RECEIVABLE:

As of June 30, 2010 and 2009, pledges receivable, net of discount to present value (at discount rates between 5% -7% for new pledges made in 2010 and 2% for pledges made prior to 2010), were as follows:

	2010	2009
Within one year	$ 1,169,000	$ 745,271
Within two and five years	6,150,599	3,267,792
Gross pledges receivable	7,319,599	4,013,063
Less discount to present value	(1,061,243)	(265,939)
Total	$ 6,258,356	$ 3,747,124

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, 2010 and 2009, were $84,031 and $172,859, respectively, from the California-Pacific Annual Conference and $49,810 and 28,978, respectively, from the Desert Southwest Annual Conference.

At June 30, 2010 and 2009, the outstanding balances of loans to an officer and some faculty members of the School aggregated $401,361 and $375,000, 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, 2010 and 2009:

	2010	2009
Blythe, California	$ 665,000	$ 665,000
Barstow, California	135,765	135,765
Other	34,500	34,500
Total	$ 835,265	$ 835,265

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

NOTE 7 – BENEFICIARY INTEREST IN SPLIT INTEREST AGREEMENTS:

The composition of beneficiary interest in split interest agreements, stated at fair value at June 30, 2010 and 2009, is as follows:

	2010	2009
Gift Annuities managed by California-Pacific Annual Conference (CAL-PAC)	$ 1,140,254	$ 1,556,040
Perpetual Trusts:		
United Methodist Foundation of Sun City	6,254,445	5,958,552
Los Angeles United Methodist Foundation	1,000,000	1,000,000
Floy Van Nuys Trust	611,694	586,472
Total Perpetual Trusts	7,866,139	7,545,024
Charitable Remainder Trusts:		
Spoelstra Trust	603,767	611,983
Elizabeth Smith Trust	115,823	91,926
Balkans Trust managed by Wells Fargo	604,754	542,650
Trusts managed by Clifford Swan	729,050	720,460
Total Charitable Remainder Trusts	2,053,394	1,967,019
Total Beneficiary Interest in Split Interest Agreements	$ 11,059,787	$ 11,068,083

NOTE 8 – PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at June 30, 2010 and 2009:

	2010	2009
Land	$ 315,253	$ 315,253
Buildings and improvements	17,862,834	17,862,834
Furniture and fixtures	2,173,932	2,512,345
Equipment and vehicles	2,532,890	2,121,773
Library books	4,129,005	3,997,866
Other	15,601	12,565
Total	27,029,515	26,822,636
Less: accumulated depreciation	(10,536,424)	(9,902,344)
Total, net	$ 16,493,091	$ 16,920,292

NOTE 9 – LINE OF CREDIT:

The School has a line of credit with a financial institution with available borrowings up to $1,500,000. This line is of credit is secured by a certificate of deposit valued at $1,500,000. At June 30, 2010 outstanding balance under the line of credit was $1,499,381. The line of credit carried an interest rate of 5.00% during 2010 and will expire within the next fiscal year.

At June 30, 2009 outstanding balance under the line of credit was $1,200,000. The line of credit had an interest rate of 5.00% during 2009.

NOTE 10 – NOTES AND LOANS PAYABLE:

At June 30, 2010 the School has an unsecured note payable to Watson Family Trust for $1,976,036. The note bears interest at 4% with monthly principal and interest payments of $26,735 through July 31, 2017. At June 30, 2009 the note payable was $2,203,900.

At June 30, 2010, the School had a secured loan payable to United Methodist Federal Credit Union totaling $2,305,718, maturing within 14 years. The loan is secured by the campus building and bears interest which is adjustable starting at 6.0% tied to five-year Treasury-Bill plus a margin of 2.5% with monthly principal and interest payments of $17,396 through July 31, 2023. At June 30, 2009 the loan payable balance was $2,385,268.

Scheduled principal payments on the above debt at June 30, 2010 are expected to be paid by the School as follows:

Year Ending June 30	
2011	$ 317,794
2012	332,331
2013	347,560
2014	363,516
2015	380,336
Therafter	2,540,217
	$ 4,281,754

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 11 – FUNCTIONAL EXPENSES:

The functional allocation of expenses for the years ended June 30, 2010 and 2009, are as follows:

	2010	2009
Program Expenses	$ 6,668,979	$ 6,304,005
General and Administrative	1,544,153	1,494,461
Fund Raising	1,510,016	1,497,569
	$ 9,723,148	$ 9,296,035

NOTE 12 – NET ASSETS:

At June 30, 2010 and 2009, temporarily restricted net assets were available for the following purposes:

	2010	2009
Pledges receivable	$ 6,258,356	$ 3,747,124
Purpose restriction for scholarship	272,258	296,512
Split interest agreements	1,182,796	1,524,350
Total Temporarily Restricted Net Assets	$ 7,713,410	$ 5,567,986

Amounts released from temporary restrictions during the years ended June 30, 2010 and 2009 were as follows:

	2010	2009
Pledges and split interest agreements	$ 1,819,877	$ 2,057,412
Scholarships, fellowships and other assistance	514,578	305,308
Total	$ 2,334,455	$ 2,362,720

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

NOTE 13 – ENDOWMENT:

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

Interpretation of Relevant Law

The Board of Trustees of the School has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:
(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

The School's endowment by net asset class at June 30, 2010 and 2009, in total and by type of endowment fund, showing donor-restricted endowment funds are as follows:

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- restricted endowment funds	$ (6,422,026)	$ -	$ 33,053,087	$ 26,631,061

2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- restricted endowment funds	$ (4,897,612)	$ -	$ 31,652,123	$ 26,754,511

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

<u>NOTE 13 – ENDOWMENT</u>: (continued)

Changes in endowment assets for the year ended June 30, 2010 and June 30, 2009, are as follows:

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2009	$ (4,897,612)	$ -	$ 31,652,123	$ 26,754,511
Net Appreciatiuon (Realized and Unrealized)	1,065,417	-	459,642	1,525,059
Contributions (during the year)	-	-	941,322	941,322
Appropriation of endowment assets for expenditure *	(2,589,831)	-	-	(2,589,831)
Endowment net assets, June 30, 2010	$ (6,422,026)	$ -	$ 33,053,087	$ 26,631,061

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

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

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

NOTE 14 – RETIREMENT PLAN:

The School participates in a defined contribution plan for its faculty, administrators, and staff. Under the plan, the School contributed $424,244 and $402,170, based on salaries of $3,079,391 and $3,630,005 for the years ended June 30, 2010 and 2009, respectively. Such contribution is calculated based on 6% of salaries for employees that have been with the School for 90 days to four years and 12% of salaries for employees that have been with the School for more than four years. Contribution to faculty are determined by rank (6% for assistant professors, 12% for associate professors and professors).

NOTE 15 – COLLECTION ITEMS:

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

During June 2000, a significant number of Asian artifacts were contributed to the School, with a restriction that limited any future proceeds from deaccessions to acquisitions of artifacts from a similar period. No other collection items were deaccessioned or destroyed as of June 30, 2010 and 2009.

NOTE 16 – UNDERWATER ENDOWMENTS:

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.

At June 30, 2010, the School's endowment was deficient, or "underwater," by approximately $6,422,026, reflecting annual appropriations per School's investment policy and market decline totaling $5,022,026 and authorized borrowing out of the endowment pool of $1,400,000. At June 30, 2009, the endowment was deficient by approximately $4,897,612, all of which was attributed to market decline.

NOTE 17 – COMMITMENTS:

For the year ended June 30, 2010, the School entered into new lease agreements for certain office equipment to be payable over the next five years in the amount of $132,587.

NOTE 18 – 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 19 – 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. An analysis of the fiscal year ended June 30, 2009 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 with the U.S. Department of Education in the amount of $870,916 through September 2010. This letter of credit is secured by funds from the School's endowment, deposited into a certificate of deposit in Citizens Business Bank.

NOTE 20 – SUBSEQUENT EVENTS:

Subsequent events have been evaluated through December 10, 2010, 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.