SOUTHERN CALIFORNIA SCHOOL OF THEOLOGY

(dba CLAREMONT SCHOOL OF THEOLOGY)

FINANCIAL STATEMENTS

June 30, 2011 and 2010

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, 2011 and 2010

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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") as of June 30, 2011 and 2010, 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 the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the U.S. Comptroller General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the 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, 2011 and 2010 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 8, 2011 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, grants, 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 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 8, 2011

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

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2011 and 2010

ASSETS:	2011	2010
Cash and cash equivalents	$ 556,656	$ 1,587,661
Investments, at fair value (notes 2 and 3)	17,531,840	17,036,521
Pledges receivable, net (note 4)	5,700,735	6,258,356
Other receivables:		
Accounts receivable, net of allowance for doubtful accounts of $71,524 in 2011 and 2010	63,619	131,449
Related parties and employee loans (note 5)	350,000	401,361
Student loans, net of allowance for doubtful accounts of $147,350 in 2011 and 2010	289,476	287,722
Prepaid expense and other assets	145,679	65,927
Land held for sale (note 6)	835,265	835,265
Beneficiary interest in split-interest agreements (notes 3 and 7)	11,691,746	11,059,787
Property and equipment, net of accumulated depreciation (note 8)	16,215,481	16,493,091
Total assets	$ 53,380,497	$ 54,157,140
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	$ 358,530	$ 270,915
Line of credit (note 9)	1,499,381	1,499,381
Student deposits	97,700	98,424
Unearned revenue	46,745	83,366
Advances from the federal government	308,159	308,159
Notes and loans payable (note 10)	3,954,913	4,281,754
Liability under split-interest agreements (note 1)	2,116,306	2,009,197
Total liabilities	8,381,734	8,551,196
Net assets:		
Unrestricted	3,195,734	4,839,447
Temporarily restricted (note 12)	7,979,359	7,713,410
Permanently restricted (note 12)	33,823,670	33,053,087
Total net assets	44,998,763	45,605,944
Total liabilities and net assets	$ 53,380,497	$ 54,157,140

See Independent Auditor's Report
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, 2011
With comparative totals for the year ended June 30, 2010

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total 2011	Total 2010
REVENUES:					
Student tuition and fees	$ 2,681,268	$ -	$ -	$ 2,681,268	$ 2,484,151
Less scholarships, fellowships and other assistance	(1,607,779)	-	-	(1,607,779)	(1,017,937)
Net tuition and fees	1,073,489	-	-	1,073,489	1,466,214
Contributions	2,820,318	854,207	215,733	3,890,258	8,656,177
Investment return (note 2)	3,010,560	(193,581)	554,850	3,371,829	1,748,437
Change in value of split-interest agreements	-	7,260	-	7,260	122,087
Rental income	1,047,044	-	-	1,047,044	972,582
Other	524,692	-	-	524,692	200,627
TOTAL REVENUES	8,476,103	667,886	770,583	9,914,572	13,166,124
Net assets released from restrictions (note 12)	401,937	(401,937)	-	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	8,878,040	265,949	770,583	9,914,572	13,166,124
EXPENSES:					
Instruction	3,359,850	-	-	3,359,850	2,785,979
Academic support	623,952	-	-	623,952	552,103
Sponsored programs	397,561	-	-	397,561	522,839
Student services	1,089,517	-	-	1,089,517	912,159
Institutional support	2,677,656	-	-	2,677,656	2,786,559
Plant operation and maintenance	2,023,577	-	-	2,023,577	1,855,465
Community service	349,640	-	-	349,640	308,044
TOTAL EXPENSES (note 11)	10,521,753	-	-	10,521,753	9,723,148
INCREASE (DECREASE) IN NET ASSETS	(1,643,713)	265,949	770,583	(607,181)	3,442,976
NET ASSETS- BEGINNING OF YEAR	4,839,447	7,713,410	33,053,087	45,605,944	42,162,968
NET ASSETS- END OF YEAR	$ 3,195,734	$ 7,979,359	$ 33,823,670	$ 44,998,763	$ 45,605,944

See Independent Auditor's Report
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

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES:				
Student tuition and fees	$ 2,484,151	$ -	$ -	$ 2,484,151
Less scholarships, fellowships and other assistance	(1,017,937)	-	-	(1,017,937)
Net tuition and fees	1,466,214	-	-	1,466,214
Contributions	3,214,704	4,500,151	941,322	8,656,177
Investment return (note 2)	1,460,752	(33,430)	321,115	1,748,437
Change in value of split-interest agreements	(29,598)	13,158	138,527	122,087
Rental income	972,582	-	-	972,582
Other	200,627	-	-	200,627
TOTAL REVENUES	7,285,281	4,479,879	1,400,964	13,166,124
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
EXPENSES:				
Instruction	2,785,979	-	-	2,785,979
Academic support	552,103	-	-	552,103
Sponsored programs	522,839	-	-	522,839
Student services	912,159	-	-	912,159
Institutional support	2,786,559	-	-	2,786,559
Plant operation and maintenance	1,855,465	-	-	1,855,465
Community service	308,044	-	-	308,044
TOTAL EXPENSES (note 11)	9,723,148	-	-	9,723,148
INCREASE (DECREASE) IN NET ASSETS	(103,412)	2,145,424	1,400,964	3,442,976
NET ASSETS- BEGINNING OF YEAR	4,942,859	5,567,986	31,652,123	42,162,968
NET ASSETS- END OF YEAR	$ 4,839,447	$ 7,713,410	$ 33,053,087	$ 45,605,944

See Independent Auditor's Report
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, 2011 and 2010

CASH FLOWS from OPERATING ACTIVITIES:	**2011**	**2010**
Change in Net Assets from Operating Activities	$ (607,181)	$ 3,442,976
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	644,876	633,922
Net realized and unrealized gains on investments	(2,864,381)	(1,309,473)
Contributions restricted for long-term purposes	(215,733)	(941,322)
(Increase) decrease in operating assets:		
Accounts receivable, net	67,830	19,095
Pledges receivable	557,621	(2,511,232)
Related parties receivables	51,361	(26,361)
Student loans receivable, net	(1,754)	(84,228)
Prepaid expense	(79,752)	7,885
Beneficiary interest in split interest agreements	(7,112)	(332,546)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	87,615	(201,662)
Student deposits	(724)	(20,410)
Unearned revenue	(36,621)	(12,676)
Liability under split-interest agreements	107,109	67,843
Net cash used in operating activities	(2,296,846)	(1,268,189)
CASH FLOWS from INVESTING ACTIVITIES:		
Purchase of property and equipment	(367,266)	(206,721)
Proceeds from sale of investments	3,518,866	3,797,241
Purchase of investments	(1,774,651)	(2,042,480)
Net cash provided by investing activities	1,376,949	1,548,040
CASH FLOWS from FINANCING ACTIVITIES:		
Net advances (payments) under line of credit arrangement	-	299,381
Principal payments on loans and notes payable	(326,841)	(307,414)
Contributions restricted for long-term purposes	215,733	941,322
Net cash provided by (used in) financing activities	(111,108)	933,289
Net increase (decrease) in cash and cash equivalents	(1,031,005)	1,213,140
Cash and cash equivalents at the beginning of the year	1,587,661	374,521
Cash and cash equivalents at the end of the year	$ 556,656	$ 1,587,661
Cash paid for interest	$ 275,375	$ 268,327

See Independent Auditor's Report
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.

In December 2010, the Claremont Lincoln University was incorporated. The School entered into a Memorandum of Understanding with the Claremont Lincoln University to develop the University Project, which requires the School to change its existing programs, curricula, or requirements. There were no substantial activities of the Claremont Lincoln University during 2010-2011 that was reported within these financial statements.

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 restrictions.

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

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.

Investments

Investments are stated at fair value based on net asset value (NAV) as reported by the investment broker. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the statement of activities. Cash equivalents categorized as investments include money market funds held for investment purposes.

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

Promises to Give

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

Split-Interest Agreements

The School issues and administers charitable remainder trust agreements in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the term of the trust. Upon termination, the School receives the remaining assets of the trust. The obligations under the trusts are based on life expectancy tables provided by the Internal Revenue Service. The School records the obligations as “liability under split-interest agreements” based on the terms of the trust agreements. The discount rate used for the year ended June 30, 2011 and 2010, 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, 2011 and 2010, was 6%.

Property and Equipment

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

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

Impairment of Long-Lived Assets

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

Collection Items

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

Unearned Revenue

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

Revenue and Expense Recognition

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

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

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

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.

Under ASC 740-10-25, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of ASC 740-10-25 had no impact on the School's financial statements. The School does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. For the years ended June 30, 2011 and 2010, there were no interest or penalties recorded or included in its financial statements.

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, 2011 and 2010, one donor accounted for 73% and 98% of the School's pledges receivable balance, respectively. However, management believes realization losses on pledges receivable amounts at the end of 2011 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.

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

Use of Accounting Estimates

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

Subsequent Events

Subsequent events have been evaluated through December 8, 2011, 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.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2010-06, Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 amended Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, to clarify certain existing fair value disclosures and to require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each “class” of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2, and 3 of the fair value hierarchy and to present information regarding the purchases, sales, issuances, and settlements in Level 3 assets and liabilities on a gross basis. The School adopted ASU 2010-06 effective July 1, 2010, with the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until fiscal year 2011-12.

NOTE 2 – INVESTMENTS:

The composition of investments, stated at fair value at June 30, 2011 and 2010, is as follows:

	2011	2010
Money market accounts	$ 1,584,490	$ 1,688,541
Certificate of deposit	2,440,360	1,546,761
Corporate equities:		
Healthcare	1,438,413	1,564,331
Consumer staples	609,836	635,811
Information technology	1,873,504	1,656,798
Consumer discretionary	1,210,792	806,367
Industrials	952,565	362,294
Materials	627,638	678,457
Financials	1,496,210	1,615,821
Telecommunication services	744,945	739,244
Utilities	178,271	311,550
Energy	928,055	907,869
Fixed Income:		
Long-Term bond	1,696,324	2,201,509
Intermediate-Term bond	728,517	819,792
Short-Term bond	937,545	1,396,950
Fixed income bond	84,375	104,426
Total investments	$ 17,531,840	$ 17,036,521

NOTE 2 – INVESTMENTS: (continued)

The composition of investment return for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Dividends and interest	$ 507,448	$ 438,964
Net realized and unrealized gain	2,864,381	1,309,473
Total investment return	$ 3,371,829	$ 1,748,437

NOTE 3 – 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 and Corporate Equities are based on quoted market prices of the identical underlying security. The fair value of the School's Level II 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 approximate fair value.

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

The following is the fair value measurement for investments and split interest agreements measured on a recurring basis at June 30, 2011 and June 30, 2010:

2011	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	$ 1,584,490	$ 1,584,490	$ -	$ -
Certificate of deposit	2,440,360	-	2,440,360	-
Corporate equities:				
Healthcare	1,438,413	1,438,413	-	-
Consumer staples	609,836	609,836	-	-
Information technology	1,873,504	1,873,504	-	-
Consumer discretionary	1,210,792	1,210,792	-	-
Industrials	952,565	952,565	-	-
Materials	627,638	627,638	-	-
Financials	1,496,210	1,496,210	-	-
Telecommunication services	744,945	744,945	-	-
Utilities	178,271	178,271	-	-
Energy	928,055	928,055	-	-
Fixed Income:				
Long-Term bond	1,696,324	178,438	1,517,886	-
Intermediate-Term bond	728,517	-	728,517	-
Short-Term bond	937,545	-	937,545	-
Fixed income bond	84,375	84,375	-	-
Total Investments	$ 17,531,840	$ 11,907,532	$ 5,624,308	$ -

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

2011	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	$ 1,095,122	$ 1,095,122	$ -	$ -
Perpetual Trusts:				
United Methodist Foundation of Sun City	7,013,928	-	-	7,013,928
Los Angeles United Methodist Foundation	1,000,000	-	-	1,000,000
Floy Van Nuys Trust	690,020	-	690,020	-
Total Perpetual Trusts	8,703,948	-	690,020	8,013,928
Charitable Remainder Trusts:				
Spoelstra Trust	446,357	-	-	446,357
Elizabeth Smith Trust	105,404	-	105,404	
Balkins Trust managed by Wells Fargo	668,425	-	668,425	-
Trusts managed by Clifford Swan	672,490	-	672,490	-
Total Charitable Remainder Trusts	1,892,676	-	1,446,319	446,357
Total Split-Interest Agreements	$ 11,691,746	$ 1,095,122	$ 2,136,339	$ 8,460,285

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

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 services	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	$ -

NOTE 3 – FAIR VALUE MEASUREMENTS: (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	$ 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:				
Spoelstra Trust	603,767	-	-	603,767
Elizabeth Smith Trust	115,823	-	115,823	-
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)

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, 2011 and June 30, 2010:

2011	Beginning Balance 6/30/10	Total unrealized gains or losses	Purchases, issuances, and settlements	Transfers in and / or out of Level 3	Ending Balance 6/30/11
Split-Interest Agreements:					
United Methodist Foundation of Sun City	$ 6,254,445	$ 759,483	$ -	$ -	$ 7,013,928
Los Angeles United Methodist Foundation	1,000,000	-	-	-	1,000,000
Spoelstra Trust	603,767	(157,410)	-	-	446,357
Total	$ 7,858,212	$ 602,073	-	$ -	$ 8,460,285

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

At June 30, 2011 and 2010, the unrealized gains for level 3 assets were $602,073 and $287,677, respectively.

NOTE 4 – PLEDGES RECEIVABLE:

As of June 30, 2011 and 2010, pledges receivable, net of discount to present value (at discount rates between 5% -7% for new pledges made in 2011 and 2010 and 2% for pledges made prior to 2011), were as follows:

	2011	2010
Within one year	$ 2,212,632	$ 1,169,000
Within two and five years	4,178,871	6,150,599
Gross pledges receivable	6,391,503	7,319,599
Less discount to present value	(690,768)	(1,061,243)
Total	$ 5,700,735	$ 6,258,356

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, 2011 and 2010, were $79,837 and $84,031, respectively, from the California-Pacific Annual Conference and $46,065 and $49,810, respectively, from the Desert Southwest Annual Conference.

At June 30, 2011 and 2010, the outstanding balances of loans to an officer and some faculty members of the School aggregated $350,000 and $401,361, 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, 2011 and 2010:

	2011	2010
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, 2011 and 2010, is as follows:

	2011	2010
Gift Annuities	$ 1,095,122	$ 1,140,254
Perpetual Trusts:		
United Methodist Foundation of Sun City	7,013,928	6,254,445
Los Angeles United Methodist Foundation	1,000,000	1,000,000
Floy Van Nuys Trust	690,020	611,694
Total Perpetual Trusts	8,703,948	7,866,139
Charitable Remainder Trusts:		
Spoelstra Trust	446,357	603,767
Elizabeth Smith Trust	105,404	115,823
Balkans Trust managed by Wells Fargo	668,425	604,754
Trusts managed by Clifford Swan	672,490	729,050
Total Charitable Remainder Trusts	1,892,676	2,053,394
Total Beneficiary Interest in Split-Interest Agreements	$ 11,691,746	$ 11,059,787

NOTE 8 – PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at June 30, 2011 and 2010:

	2011	2010
Land	$ 315,253	$ 315,253
Buildings and improvements	17,987,593	17,862,834
Furniture and fixtures	2,174,172	2,173,932
Equipment and vehicles	2,619,025	2,532,890
Library books	4,285,137	4,129,005
Other	15,601	15,601
Total	27,396,781	27,029,515
Less: accumulated depreciation	(11,181,300)	(10,536,424)
Total Property and Equipment, net	$ 16,215,481	$ 16,493,091

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. The line of credit carried an interest rate of 3.80% and 5.00% for 2011 and 2010, respectively, and will expire within the next fiscal year. At June 30, 2011 and 2010, the outstanding balance under the line of credit was $1,499,381.

NOTE 10 – NOTES AND LOANS PAYABLE:

At June 30, 2011 and 2010, the School has an unsecured note payable to Watson Family Trust for $1,729,779 and $1,976,036, respectively. The note bears interest at 4% with monthly principal and interest payments of $26,735 through July 31, 2017.

At June 30, 2011 and 2010, the School had a secured loan payable to United Methodist Federal Credit Union totaling $2,225,134 and $2,305,718, respectively, 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.

Scheduled principal payments on the above debt at June 30, 2011 are expected to be paid by the School as follows:

Year Ending June 30		
2012	$	353,510
2013		347,784
2014		363,754
2015		380,489
2016		398,026
Therafter		2,111,351
	$	3,253,620

NOTE 11 – FUNCTIONAL EXPENSES:

The functional allocation of expenses for the years ended June 30, 2011 and 2010, are as follows:

	2011	2010
Program Expenses	$ 7,491,529	$ 6,668,979
General and Administrative	1,489,872	1,544,153
Fund Raising	1,540,352	1,510,016
	$ 10,521,753	$ 9,723,148

NOTE 12 – NET ASSETS:

At June 30, 2011 and 2010, temporarily restricted net assets were available for the following purposes:

	2011	2010
Pledges receivable	$ 6,525,358	$ 6,258,356
Purpose restriction for scholarship	395,000	272,258
Split interest agreements	868,662	1,182,796
Time restricted	190,339	-
Total Temporarily Restricted Net Assets	$ 7,979,359	$ 7,713,410

Amounts released from temporary restrictions during the years ended June 30, 2011 and 2010 were as follows:

	2011	2010
Pledges and split interest agreements	$ 129,679	$ 1,819,877
Scholarships, fellowships and other assistance	272,258	514,578
Total	$ 401,937	$ 2,334,455

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, 2011 and 2010, in total and by type of endowment fund, showing donor-restricted endowment funds are as follows:

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- restricted endowment funds	$ (9,195,291)	$ -	$ 33,823,670	$ 24,628,379

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

NOTE 13 – ENDOWMENT: (continued)

Changes in endowment assets for the year ended June 30, 2011 and 2010, are as follows:

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2010	$ (6,422,026)	$ -	$ 33,053,087	$ 26,631,061
Net Appreciation (Realized and Unrealized)	(320,476)	-	554,850	234,374
Contributions (during the year)	-	-	215,733	215,733
Appropriation of endowment assets for expenditure *	(2,452,789)	-	-	(2,452,789)
Endowment net assets, June 30, 2011	$ (9,195,291)	$ -	$ 33,823,670	$ 24,628,379

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2009	$ (4,897,612)	$ -	$ 31,652,123	$ 26,754,511
Net Appreciation (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.

NOTE 14 – RETIREMENT PLAN:

The School participates in a defined contribution plan for its faculty, administrators, and staff. Under the plan, the School contributed \$420,761 and \$402,170, based on salaries of \$3,944,983 and \$3,079,391 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010.

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, 2011, the School's endowment was deficient, or "underwater," by approximately \$9,195,291, reflecting annual appropriations per School's investment policy totaling \$1,074,876 and authorized borrowing out of the endowment pool of \$1,377,913. At June 30, 2010, the endowment was deficient by approximately \$6,422,026, all of which was attributed to market decline.

NOTE 17 – COMMITMENTS:

The School entered into new lease agreements during the year ended June 30, 2010 for certain office equipment to be payable through June 30, 2015. Future minimum lease payments are as follows:

Year Ending June 30		
2012	$	26,517
2013		26,517
2014		26,517
2015		12,951
	$	92,502

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, 2010 financial statements yielded a composite score of 0.9. 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 $724,771 through August 2011. This letter of credit is secured by funds from the School's endowment, deposited into a certificate of deposit in Citizens Business Bank.