

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

FINANCIAL STATEMENTS
June 30, 2013 and 2012
And For The Years Then Ended

Together with Independent Auditor's Report



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

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June 30, 2013 and 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Southern California School of Theology:

We have audited the accompanying statements of financial position of Southern California School of Theology (dba Claremont School of Theology; the "School"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2014 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Stanislawski & Harrison". The signature is written in black ink and is positioned above the printed name of the firm.

STANISLAWSKI & HARRISON

February 10, 2014

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

STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

ASSETS:	2013	2012
Cash and cash equivalents	\$ 921,048	\$ 804,308
Pledges receivable, net (note 4)	2,358,500	3,895,014
Other receivables:		
Accounts receivable, net of allowance for doubtful accounts of \$71,524 in 2013 and 2012	39,403	94,681
Related parties and employee loans (note 5)	350,000	350,000
Student loans, net of allowance for doubtful accounts of \$147,350 in 2013 and 2012	384,863	487,912
Prepaid expense and other assets	52,147	55,275
Restricted cash (note 2)	351,020	129,325
Investments, at fair value (notes 2 and 3)	13,619,517	16,564,067
Land held for sale (note 6)	835,265	835,265
Beneficiary interest in split-interest agreements (notes 3 and 7)	11,711,219	11,589,262
Property and equipment, net of accumulated depreciation (note 8)	15,836,183	15,972,121
Total assets	\$ 46,459,165	\$ 50,777,230
 LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	\$ 564,639	\$ 268,648
Payable to Claremont Lincoln University	625,098	-
Line of credit (note 9)	1,497,824	987,730
Student deposits	119,878	110,263
Unearned revenue	36,745	36,745
Advances from the federal government	308,159	308,159
Notes and loans payable (note 10)	3,288,667	3,517,426
Liability under split-interest agreements (note 7)	1,789,477	1,835,674
Total liabilities	8,230,487	7,064,645
Commitments (note 16)		
Net assets:		
Unrestricted	652,487	2,256,793
Temporarily restricted (note 12)	3,402,011	7,414,858
Permanently restricted (notes 12 and 13)	34,174,180	34,040,934
Total net assets	38,228,678	43,712,585
Total liabilities and net assets	\$ 46,459,165	\$ 50,777,230

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2013

With comparative totals for the year ended June 30, 2012

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total	
				2013	2012
REVENUES:					
Student tuition and fees	\$ 2,067,626	\$ -	\$ -	\$ 2,067,626	\$ 3,109,330
Less scholarships, fellowships and other assistance	(1,459,471)	-	-	(1,459,471)	(1,796,006)
Net tuition and fees	608,155	-	-	608,155	1,313,324
Contributions	2,047,489	657,585	186,652	2,891,726	5,998,800
Investment return (note 2)	2,038,528	(149,870)	346,594	2,235,252	194,249
Change in value of split-interest agreements	-	(47,563)	-	(47,563)	2,481
Rental income	1,129,580	-	-	1,129,580	1,121,127
Other income	163,303	-	-	163,303	152,665
TOTAL REVENUES	5,987,055	460,152	533,246	6,980,453	8,782,646
Net assets released from restrictions (note 12)	4,976,139	(4,976,139)	-	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	10,963,194	(4,515,987)	533,246	6,980,453	8,782,646
EXPENSES:					
Instruction	3,933,471	-	-	3,933,471	3,359,991
Academic support	872,150	-	-	872,150	667,905
Sponsored programs	689,858	-	-	689,858	367,487
Student services	1,223,958	-	-	1,223,958	1,023,044
Institutional support	2,549,910	-	-	2,549,910	2,181,154
Plant operation and maintenance	2,250,091	-	-	2,250,091	2,132,404
Community service	544,922	-	-	544,922	336,839
TOTAL EXPENSES (note 11)	12,064,360	-	-	12,064,360	10,068,824
INCREASE (DECREASE) IN NET ASSETS BEFORE WRITE-OFF OF PLEDGE RECEIVABLE AND REDESIGNATION					
	(1,101,166)	(4,515,987)	533,246	(5,083,907)	(1,286,178)
LOSS ON WRITE-OFF OF PLEDGE RECEIVABLE	-	-	(400,000)	(400,000)	-
RE-DESIGNATION (note 1)	(503,140)	503,140	-	-	-
INCREASE (DECREASE) IN NET ASSETS AFTER WRITE-OFF OF PLEDGE RECEIVABLE AND REDESIGNATION					
	(1,604,306)	(4,012,847)	133,246	(5,483,907)	(1,286,178)
NET ASSETS- BEGINNING OF YEAR	2,256,793	7,414,858	34,040,934	43,712,585	44,998,763
NET ASSETS- END OF YEAR	\$ 652,487	\$ 3,402,011	\$ 34,174,180	\$ 38,228,678	\$ 43,712,585

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2012

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES:				
Student tuition and fees	\$ 3,109,330	\$ -	\$ -	\$ 3,109,330
Less scholarships, fellowships and other assistance	(1,796,006)	-	-	(1,796,006)
Net tuition and fees	1,313,324	-	-	1,313,324
Contributions	2,123,417	3,724,458	150,925	5,998,800
Investment return (note 2)	85,749	42,161	66,339	194,249
Change in value of split-interest agreements	-	2,481	-	2,481
Rental income	1,121,127	-	-	1,121,127
Other	152,665	-	-	152,665
TOTAL REVENUES	4,796,282	3,769,100	217,264	8,782,646
Net assets released from restrictions (note 12)	4,333,601	(4,333,601)	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	9,129,883	(564,501)	217,264	8,782,646
EXPENSES:				
Instruction	3,359,991	-	-	3,359,991
Academic support	667,905	-	-	667,905
Sponsored programs	367,487	-	-	367,487
Student services	1,023,044	-	-	1,023,044
Institutional support	2,181,154	-	-	2,181,154
Plant operation and maintenance	2,132,404	-	-	2,132,404
Community service	336,839	-	-	336,839
TOTAL EXPENSES (note 11)	10,068,824	-	-	10,068,824
INCREASE (DECREASE) IN NET ASSETS	(938,941)	(564,501)	217,264	(1,286,178)
NET ASSETS- BEGINNING OF YEAR	3,195,734	7,979,359	33,823,670	44,998,763
NET ASSETS- END OF YEAR	\$ 2,256,793	\$ 7,414,858	\$ 34,040,934	\$ 43,712,585

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

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2013 and 2012

CASH FLOWS from OPERATING ACTIVITIES:	<u>2013</u>	<u>2012</u>
Change in Net Assets from Operating Activities	\$ (5,483,907)	\$ (1,286,178)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	703,670	668,318
Net realized and unrealized (gains) losses on investments	(1,892,175)	453,130
Contributions restricted for long-term purposes	(186,652)	(150,925)
Forgiveness of notes and loans payable	(150,000)	(150,000)
(Increase) decrease in operating assets:		
Accounts receivable, net	55,278	(31,062)
Pledges receivable	1,536,514	1,805,721
Student loans, net	103,049	(198,436)
Prepaid expense and other assets	3,128	113,024
Beneficiary interest in split-interest agreements	(121,957)	102,484
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	295,991	(121,088)
Payable to Claremont Lincoln University	625,098	-
Student deposits	9,615	12,563
Unearned revenue	-	(10,000)
Liability under split-interest agreements	(46,197)	(280,632)
Net cash provided by (used in) operating activities	<u>(4,548,545)</u>	<u>926,919</u>
 CASH FLOWS from INVESTING ACTIVITIES:		
Purchase of property and equipment	(567,732)	(424,958)
Proceeds from sale of investments	6,553,151	1,367,079
Purchase of investments	<u>(1,716,426)</u>	<u>(852,436)</u>
Net cash provided by investing activities	<u>4,268,993</u>	<u>89,685</u>
 CASH FLOWS from FINANCING ACTIVITIES:		
Payments under line of credit arrangement	-	(511,651)
Borrowings on line of credit	510,094	-
Principal payments on note and loan payable	(78,759)	(278,901)
Contributions restricted for long-term purposes	<u>186,652</u>	<u>150,925</u>
Net cash provided by (used in) financing activities	<u>617,987</u>	<u>(639,627)</u>
 Net increase in cash and cash equivalents	338,435	376,977
Cash and cash equivalents at the beginning of the year	<u>933,633</u>	<u>556,656</u>
Cash and cash equivalents at the end of the year	<u>\$ 1,272,068</u>	<u>\$ 933,633</u>
 Recap of cash and cash equivalents:		
Cash and cash equivalents	\$ 921,048	\$ 804,308
Restricted cash	<u>351,020</u>	<u>129,325</u>
	<u>\$ 1,272,068</u>	<u>\$ 933,633</u>
 Cash paid for interest	<u>\$ 231,756</u>	<u>\$ 257,157</u>
 NONCASH TRANSACTION:		
Forgiveness of notes and loans payable	<u>\$ 150,000</u>	<u>\$ 150,000</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

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

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

Basis of Accounting and Presentation

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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

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

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

Endowment - Return Objectives and Risk Parameters

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

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

Endowment Spending Policy

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

Cash and Cash Equivalents

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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

Restricted Cash

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

Investments

The fair value of the School's Level 1 financial assets such as money market funds and mutual funds are stated at net asset value (NAV) as reported by fund managers. Corporate equities are based on quoted market prices of the identical underlying security. The fair value of the School's Level 2 financial assets such as short-term, intermediate-term and long-term bonds are obtained from over-the-counter markets at the last reported sale price or in the absence of a recorded sale, at the values between the most recent bid and asked prices. Certificate of deposits are valued at amortized cost, which approximates fair value.

Fair Value Measurements

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

Level 1 – Quoted market prices are available in active market for identical assets or liabilities as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 – Pricing inputs are unobservable and shall be used to measure fair value to the extent that observable inputs are not available. The inputs into the determination of fair value are based upon the best information available and require significant management judgment or estimation.

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

Promises to Give

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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

Split-Interest Agreements

The School issues and administers charitable remainder trust agreements in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the term of the trust. Upon termination, the School receives the remaining assets of the trust. The obligations under the trusts are based on life expectancy tables provided by the Annuity 2000 Mortality Tables. The School records the obligations as “liability under split-interest agreements” based on the terms of the trust agreements. The net assets associated with these trusts are reflected in temporarily and permanently restricted net assets.

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

Property and Equipment

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

Collection Items

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

Unearned Revenue

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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

Revenue and Expense Recognition

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

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

Functional Allocation of Expenses

The costs of providing the program and supporting activities of the School have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program, administrative, and fund raising functions, based upon the estimated benefit received by each function.

Income Taxes

The School is a nonprofit, tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income and state franchise taxes on related income pursuant to Section 501(a) of the Code and similar provisions of the California Franchise Tax Code. The School does not engage in any significant unrelated trades or businesses. Accordingly, no provision for income taxes is required.

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

Federal Student Financial Aid Program

The School is a participant in the federal government Title IV program, from which the School receives and distributes to qualified students unsubsidized loans, subsidized loans, and Perkins loans.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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

Concentration of Credit Risks

The School places its temporary cash investments with quality financial institutions. At times, such investments may be in excess of the Federal Deposits Insurance Corporation insurance limit. The School has not incurred credit losses related to these investments. Concentration of credit risk for student receivables is generally limited due to the dispersion of these items over a wide student base. The School continually monitors its receivables and establishes valuation reserves as considered appropriate.

As of June 30, 2013 and 2012, approximately 94% and 97%, respectively, of total pledges receivable were due from three donors. During the year ended June 30, 2012, two donors accounted for approximately 44% of the total contribution revenue. Management believes realization losses on pledges receivable amounts at the end of 2013 and 2012 were immaterial.

Use of Accounting Estimates

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

Reclassification

Certain prior year balances have been reclassified to conform to current year presentation or to more accurately present the nature of the account balance.

Re-designation

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

Subsequent Events

Subsequent events have been evaluated through February 10, 2014, the date that these financial statements are available to be issued. There were no subsequent events that would require adjustments to or disclosure in these financial statements except as already disclosed in these financial statements.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2 – INVESTMENTS:

The composition of investments, stated at fair value at June 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Cash and money market accounts	\$ 736,492	\$ 396,167
Money market funds	87,767	976,781
Mutual funds	67,386	1,105,425
Certificate of deposit	2,410,578	2,280,272
Corporate equities:		
Communication services	-	6,074
Consumer discretionary	1,195,669	1,307,139
Consumer staples	580,449	759,765
Energy	611,606	736,559
Financials	1,390,053	1,295,318
Healthcare	1,243,533	1,386,974
Industrials	851,580	1,120,940
Information technology	1,172,757	1,875,096
Materials	384,049	414,126
Telecommunication services	229,506	352,589
Utilities	32,409	47,168
Fixed income:		
Long-term bond	212,382	366,099
Intermediate-term bond	830,500	1,858,178
Short-term bond	829,276	279,397
Fixed income bond	753,525	-
Total investments	<u>\$ 13,619,517</u>	<u>\$ 16,564,067</u>

The composition of investment return for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Dividends and interest	\$ 343,077	\$ 647,379
Net realized and unrealized gain (loss)	<u>1,892,175</u>	<u>(453,130)</u>
Total investment return	<u>\$ 2,235,252</u>	<u>\$ 194,249</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013 and 2012:

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

2012	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and money market accounts	\$ 396,167	\$ 396,167	\$ -	\$ -
Money market funds	976,781	976,781	-	-
Certificate of deposit	2,280,272	-	2,280,272	-
Mutual funds:				
Loomis mutual funds	876,510	876,510	-	-
iShares MSCI funds	52,772	52,772	-	-
Focus growth fund	15,042	15,042	-	-
Diversified dividend fund	16,576	16,576	-	-
Short duration plus fund	46,173	46,173	-	-
Global bond fund	26,941	26,941	-	-
Growth and income fund	42,971	42,971	-	-
Large cap value fund	28,440	28,440	-	-
Corporate equities:				
Communication services	6,074	6,074	-	-
Consumer discretionary	1,307,139	1,307,139	-	-
Consumer staples	759,765	759,765	-	-
Energy	736,559	736,559	-	-
Financials	1,295,318	1,295,318	-	-
Healthcare	1,386,974	1,386,974	-	-
Industrials	1,120,940	1,120,940	-	-
Information technology	1,875,096	1,875,096	-	-
Materials	414,126	414,126	-	-
Telecommunication services	352,589	352,589	-	-
Utilities	47,168	47,168	-	-
Fixed income:				
Long-term bond	366,099	-	366,099	-
Intermediate-term bond	1,858,178	-	1,858,178	-
Short-term bond	279,397	-	279,397	-
Total investments	<u>\$ 16,564,067</u>	<u>\$ 11,780,121</u>	<u>\$ 4,783,946</u>	<u>\$ -</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

2012	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	\$ 828,523	\$ -	\$ 828,523	\$ -
Perpetual trusts:				
United Methodist Foundation of Sun City	7,163,017	-	-	7,163,017
Los Angeles United Methodist Foundation	1,000,000	-	-	1,000,000
Floy Van Nuys Trust	674,438	-	-	674,438
Total perpetual trusts	8,837,455	-	-	8,837,455
Charitable remainder trusts:				
Spoelstra Trust	443,146	-	-	443,146
Elizabeth Smith Trust	191,746	-	191,746	-
Balkins Trust managed by Wells Fargo	662,425	-	662,425	-
Trusts managed by Clifford Swan	625,967	-	625,967	-
Total charitable remainder trusts	1,923,284	-	1,480,138	443,146
Total split-interest agreements	\$ 11,589,262	\$ -	\$ 2,308,661	\$ 9,280,601

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

The following is the activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2013 and 2012:

2013	Beginning Balance	Total unrealized gains or (losses)	Purchases, issuances, and settlements	Transfers in and / or out of Level 3	Ending Balance
Split-Interest Agreements:					
United Methodist Foundation of Sun City	\$ 7,163,017	\$ 329,286	\$ -	\$ -	\$ 7,492,303
Los Angeles United Methodist Foundation	1,000,000	-	-	-	1,000,000
Floy Van Nuys Trust	674,438	17,307	-	-	691,745
Spoelstra Trust	443,146	(1,871)	-	-	441,275
Total	\$ 9,280,601	\$ 344,722	\$ -	\$ -	\$ 9,625,323
<hr/>					
2012					
Split-Interest Agreements:					
United Methodist Foundation of Sun City	\$ 7,013,928	\$ 149,089	\$ -	\$ -	\$ 7,163,017
Los Angeles United Methodist Foundation	1,000,000	-	-	-	1,000,000
Floy Van Nuys Trust	690,020	(15,582)	-	-	674,438
Spoelstra Trust	446,357	(3,211)	-	-	443,146
Total	\$ 9,150,305	\$ 130,296	\$ -	\$ -	\$ 9,280,601

The amount attributable to the change in unrealized gains relating to assets still held at year end was \$344,722 and \$130,296 for the years ended June 30, 2013 and 2012, respectively.

NOTE 4 – PLEDGES RECEIVABLE:

As of June 30, 2013 and 2012, pledges receivable, net of discount to present value (at discount rates 4% to 7%), were as follows:

	2013	2012
Within one year	\$ 997,000	\$ 865,804
Within two and five years	1,445,605	2,887,586
Thereafter	487,178	873,058
Gross pledges receivable	2,929,783	4,626,448
Less allowance for uncollectible pledges	(347,957)	(28,000)
Less discount to present value	(223,326)	(703,434)
Total	\$ 2,358,500	\$ 3,895,014

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013 and 2012, were \$40,300 and \$33,619, respectively, from the California-Pacific Annual Conference and \$43,524 and \$43,101, respectively, from the Desert Southwest Annual Conference.

At June 30, 2013 and 2012, the outstanding balances of loans to an officer and some faculty members of the School aggregated \$350,000. 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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Blythe, California	\$ 665,000	\$ 665,000
Barstow, California	135,765	135,765
Other	<u>34,500</u>	<u>34,500</u>
Total	<u>\$ 835,265</u>	<u>\$ 835,265</u>

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

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 7 –SPLIT-INTEREST AGREEMENTS:

The composition of beneficiary interest in split-interest agreements, stated at fair value at June 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Perpetual Trusts:		
United Methodist Foundation of Sun City	\$ 7,492,303	\$ 7,163,017
Los Angeles United Methodist Foundation	1,000,000	1,000,000
Floy Van Nuys Trust	691,745	674,438
Total Perpetual Trusts	<u>9,184,048</u>	<u>8,837,455</u>
Charitable Remainder Trusts:		
Spoelstra Trust	441,275	443,146
Elizabeth Smith Trust	-	191,746
Trusts Administered by the School:		
Balkans Trust	676,886	662,425
Other Trusts	654,952	625,967
Total Charitable Remainder Trusts	<u>1,773,113</u>	<u>1,923,284</u>
Gift Annuities - Administered by the School	<u>754,058</u>	<u>828,523</u>
Total Beneficiary Interest in Split-Interest Agreements	<u>\$ 11,711,219</u>	<u>\$ 11,589,262</u>

The School administers charitable gift annuities in which a donor contributes assets to the School in exchange for a promise by the School to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. The obligations under the gift annuity are based on life expectancy provided in the Annuity 2000 Mortality Table. The School records the obligations as “liability under split-interest agreements” based on the terms of the annuities. The discount rate used for the years ended June 30, 2013 and 2012, was 6%.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 8 – PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land	\$ 315,253	\$ 315,253
Buildings and improvements	18,059,749	17,995,876
Furniture and fixtures	2,174,172	2,174,172
Equipment and vehicles	3,225,846	2,871,042
Library books	4,598,850	4,449,795
Other	15,601	15,601
Total	<u>28,389,471</u>	<u>27,821,739</u>
Less: accumulated depreciation	<u>(12,553,288)</u>	<u>(11,849,618)</u>
Total Property and Equipment, net	<u>\$ 15,836,183</u>	<u>\$ 15,972,121</u>

NOTE 9 – LINE OF CREDIT:

The School has a line of credit with a financial institution with available borrowings up to \$1,500,000. This line of credit is secured by a certificate of deposit valued at \$1,500,000. The line of credit carried an interest rate of 3.55% for 2013 and 2012, and expires on August 11, 2014. At June 30, 2013 and 2012, the outstanding balance under the line of credit was \$1,497,824 and \$987,730, respectively.

NOTE 10 – NOTE AND LOAN PAYABLE:

At June 30, 2013 and 2012, the School has an unsecured note payable to Watson Family Trust for \$1,238,525 and \$1,388,525, respectively. The note bears interest at 4% with monthly principal and interest payments of \$26,735 through July 31, 2017. Effective May 30, 2012, the Watson Family agreed to forgive \$150,000 on May 30 of each year until the note is fully forgiven. The School recorded interest forgiveness as temporarily restricted support and an increase in contribution receivable net of discount in the amount of \$1,141,326 during the year ended June 30, 2012.

At June 30, 2013 and 2012, the School had a secured loan payable to United Methodist Federal Credit Union totaling \$2,050,142 and \$2,128,901, respectively. The loan is secured by the campus building and bears interest which is adjustable starting at 6.0% tied to five-year Treasury-Bill plus a margin of 2.5% with monthly principal and interest payments of \$17,396 through July 31, 2023.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 10 – NOTES AND LOANS PAYABLE: (continued)

Scheduled principal payments on the above debt at June 30, 2013 are expected to be paid by the School as follows:

<u>Year Ending June 30</u>		
2014	\$	235,230
2015		240,618
2016		246,346
2017		252,436
2018		258,910
Therafter		<u>2,055,127</u>
Total	\$	<u><u>3,288,667</u></u>

NOTE 11 – FUNCTIONAL EXPENSES:

The functional allocation of expenses for the years ended June 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Program Expenses	\$ 8,880,775	\$ 7,419,643
General and Administrative	1,630,758	1,265,646
Fundraising	<u>1,552,827</u>	<u>1,383,535</u>
Total	<u><u>\$ 12,064,360</u></u>	<u><u>\$ 10,068,824</u></u>

SOUTHERN CALIFORNIA SCHOOL OF THEOLOGY
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NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 12 – NET ASSETS:

At June 30, 2013 and 2012, temporarily restricted net assets were available for the following purposes:

	<u>2013</u>	<u>2012</u>
University project	\$ 1,164,492	\$ 4,683,025
School projects and salary support	1,266,427	1,308,525
Split-interest agreements	715,871	913,304
Time restriction	152,721	104,204
Scholarships	80,000	380,000
Other	22,500	25,800
	<u> </u>	<u> </u>
Total Temporarily Restricted Net Assets	<u>\$ 3,402,011</u>	<u>\$ 7,414,858</u>

Amounts released from temporary restrictions during the years ended June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
University project	\$ 4,301,891	\$ 3,699,488
Scholarships	400,000	315,000
School projects and salary support	214,465	80,000
Time restriction	56,483	190,339
Other	3,300	48,774
	<u> </u>	<u> </u>
Total	<u>\$ 4,976,139</u>	<u>\$ 4,333,601</u>

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

For the years ended June 30, 2013 and 2012, the School incurred costs of \$5,108,045 and \$3,699,488, respectively, on behalf of the University; these expenses were recorded in various expense line items of the School's statements of activities and presented as part of net assets released from restrictions. The releases of \$4,301,891 for the University Project include an adjustment of \$806,154 for the correction of an estimate in the allocation of expenses between the University and the School.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013 and 2012, in total and by type of endowment fund, showing donor-restricted endowment funds are as follows:

<u>2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor- restricted endowment funds	<u>\$ (13,106,576)</u>	<u>\$ -</u>	<u>\$ 34,174,180</u>	<u>\$ 21,067,604</u>
<u>2012</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor- restricted endowment funds	<u>\$ (10,005,068)</u>	<u>\$ -</u>	<u>\$ 34,040,934</u>	<u>\$ 24,035,866</u>

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 13 – ENDOWMENT: (continued)

Changes in endowment assets for the year ended June 30, 2013 and 2012, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2011	\$ (9,195,291)	\$ -	\$ 33,823,670	\$ 24,628,379
Net appreciation (realized and unrealized)	320,657	-	66,339	386,996
Contributions (during the year)	-	-	150,925	150,925
Appropriation of endowment assets for expenditure *	<u>(1,130,434)</u>	<u>-</u>	<u>-</u>	<u>(1,130,434)</u>
Endowment net assets, June 30, 2012	<u>(10,005,068)</u>	<u>-</u>	<u>34,040,934</u>	<u>24,035,866</u>
Net appreciation (realized and unrealized)	2,007,785	-	346,594	2,354,379
Contributions (during the year)	-	-	186,652	186,652
Appropriation of endowment assets for expenditure *	(1,159,293)	-	-	(1,159,293)
Borrowings from endowment	(3,950,000)	-	-	(3,950,000)
Loss on write-off of pledge receivable	<u>-</u>	<u>-</u>	<u>(400,000)</u>	<u>(400,000)</u>
Endowment net assets, June 30, 2013	<u>\$ (13,106,576)</u>	<u>\$ -</u>	<u>\$ 34,174,180</u>	<u>\$ 21,067,604</u>

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

Declines in the market value of the investment pool and annual borrowings out of the endowment pool have created a situation where the market value of certain endowments is less than the cost basis of the original gift. This condition has been referred to as an “underwater endowment.” Net losses on permanently restricted endowment funds are recorded as decreases in unrestricted net assets. As of June 30, 2013 and 2012, the cumulative borrowings from the endowment pool were \$6,727,913 and \$2,777,913, respectively.

At June 30, 2013, the School’s endowment was deficient, or “underwater,” by \$13,106,576, reflecting annual appropriations per School’s investment policy totaling \$1,159,293. At June 30, 2012, the endowment was deficient, or “underwater,” by \$10,005,068, reflecting annual appropriations per School’s investment policy totaling \$1,130,434.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 14 – RETIREMENT PLAN:

The School participates in a defined contribution plan for its faculty, administrators, and staff. Under the plan, the School contributed \$495,255 and \$436,791 for the years ended June 30, 2013 and 2012, respectively. Such contribution is calculated based on 6% of salaries for employees that have been with the School for 90 days to four years and 12% of salaries for employees that have been with the School for more than four years. Contribution to faculty are determined by rank (6% for assistant professors, 12% for associate professors and professors).

NOTE 15 – COLLECTION ITEMS:

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

During June 2000, a significant number of Asian artifacts were contributed to the School, with a restriction that limited any future proceeds from deaccessions to acquisitions of artifacts from a similar period. No collection items were deaccessioned or destroyed as of June 30, 2013 and 2012.

NOTE 16 – COMMITMENTS:

The School has lease agreements for certain office equipment to be payable through June 30, 2015. Future minimum lease payments are as follows:

<u>Year Ending June 30</u>		
2014	\$	26,517
2015		<u>12,951</u>
	\$	<u><u>39,468</u></u>

Capital Lease

During the fiscal year ended June 30, 2013, the School entered into a five-year commitment under a capital lease for phone equipment. The annual payment under the lease is \$45,568. As of June 30, 2013, the lease liability was \$193,662.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 17 – CONDITIONAL ASSET RETIREMENT OBLIGATIONS:

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

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

NOTE 18 – IRREVOCABLE LETTER OF CREDIT:

In order to participate in Title IV programs, an institution must demonstrate that it is financially responsible. Part of the way the U.S. Department of Education determines financial responsibility is through the use of the equity, primary reserve, and net income ratios that yield a composite score of at least 1.5 over a three year period. The U. S. Department of Education performed an analysis of the fiscal year ended June 30, 2012 financial statements yielded a composite score of 0.6. As a result of this, the School was required to establish an irrevocable letter of credit required by the U.S. Department of Education in the amount of \$988,807. A letter of credit in the amount of \$988,807 has been issued by United Methodist Federal Credit Union on August 11, 2013 which will expire on August 11, 2014.



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

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

We have audited the financial statements of Southern California School of Theology (dba Claremont School of Theology) (the "School") as of and for the year ended June 30, 2013, and have issued our report thereon dated February 10, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs in a Circular A-133 audit as item 13-1 and 13-2 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters which are required to be reported under *Government Auditing Standard*.

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

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose. This report is intended solely for the information of the board of trustees, audit committee, management, the U.S. Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



STANISLAWSKI & HARRISON

February 10, 2014

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

13-1 Controls over Year-end Financial Closing and Reporting

2013 Finding: The School lacks review controls over year-end audit schedules and reconciliations prepared by the outside accountant. As a result, many schedules prepared by the outside accountant have errors, which resulted in multiple iterations of schedules prepared and added time to the audit and preparation of financial statements process.

2013 Recommendation: This deficiency could be addressed by management review of the outside accountant's work to ensure accuracy of the schedules and reconciliations.

2013 Management Response: Management recognizes this deficiency. Review procedures are now in place for the work of all outside agents in all areas. Ultimately, all work performed at CST is the responsibility of CST Management. This is true for the work of employees and for the work of contractors.

13-2 Audit Adjustments

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

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

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

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

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

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
June 30, 2013

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

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