SOUTHERN CALIFORNIA SCHOOL OF THEOLOGY

(dba: CLAREMONT SCHOOL OF THEOLOGY)

FINANCIAL STATEMENTS

June 30, 2017

And For The Year Then Ended

Together with Independent Auditors' Report

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

CONTENTS
June 30, 2017

USMAN ILYAS
LICENSED CERTIFIED PUBLIC ACCOUNTANT

uilyas786@outlook.com
(949) 273 8509

INDEPENDENT AUDITORS' REPORT

Board of Directors
Southern California School of Theology, dba Claremont School of Theology
Claremont, California

Report on the Financial Statements

We have audited the accompanying financial statements of Southern California School of Theology (dba: Claremont School of Theology) (the School), which comprise the statement of financial position as of June 30, 2017 and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements. The financial statements of the School as of June 30, 2016, were audited by other auditors whose report dated March 2, 2017, expressed an unmodified opinion on those 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by U Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2018 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.

Usman Ilyas

Usman Ilyas, CPA

Lake Forest, California
January 29, 2018

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

STATEMENT OF FINANCIAL POSITION

June 30, 2017 and 2016

ASSETS:		2017		2016
Cash and cash equivalents	$	2,487,453	$	658,311
Pledges receivable, net (note 4)		1,002,214		792,764
Other receivables:				
Accounts receivable, net of allowance for doubtful accounts of $24,986 in 2016 and $71,524 in 2016		439,283		544,206
Related parties and employee loans (note 5)		199,357		199,357
Student loans, net of allowance for doubtful accounts of $147,350 in 2017 and 2016		140,780		181,003
Receivable from Bayan College		348,050		231,676
Prepaid expense and other assets		83,371		172,964
Investments, at fair value (notes 2 and 3)		2,308,422		7,495,253
Land held for sale (note 6)		170,265		170,265
Beneficiary interest in split-interest agreements (notes 3 and 7)		12,414,217		11,879,034
Property and equipment, net of accumulated depreciation (note 8)		14,477,069		14,634,220
Total assets	$	34,070,481	$	36,959,053
LIABILITIES AND NET ASSETS:				
Accounts payable and accrued expenses	$	585,060	$	390,818
Line of credit (note 9)		-		1,491,528
Student deposits		60,711		134,632
Unearned revenue		497,834		568,342
Advances from the federal government		48,324		307,194
Notes and loans payable (note 10)		3,960,286		2,563,364
Liability under split-interest agreements (note 7)		1,566,804		1,387,724
Total liabilities		6,719,019		6,843,602
Commitments (note 16)				
Net assets:				
Unrestricted (accumulated deficit)		(10,999,057)		(7,706,077)
Temporarily restricted (note 12)		985,869		893,883
Permanently restricted (notes 12 and 13)		37,364,650		36,927,645
Total net assets		27,351,462		30,115,451
Total liabilities and net assets	$	34,070,481	$	36,959,053

See Independent Auditors' 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, 2017
with comparative totals for 2016

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total 2017	Total 2016
REVENUES:					
Student tuition and fees	$ 4,418,495	$ -	$ -	$ 4,418,495	$ 3,879,399
Less scholarships, fellowships and other assistance	(2,330,602)	-	-	(2,330,602)	(1,906,423)
Net tuition and fees	2,087,893	-	-	2,087,893	1,972,976
Teaching revenue from CLU	500,000	-	-	500,000	740,704
Contributions	2,956,460	143,150	-	3,099,610	4,915,977
Investment return (note 2)	243,697	-	437,005	680,702	(156,192)
Change in value of split-interest agreements	-	98,176	-	98,176	(253,457)
Rental income	1,047,716	-	-	1,047,716	1,060,860
Other income	341,257	-	-	341,257	294,892
TOTAL REVENUES	7,177,023	241,326	437,005	7,855,354	8,575,760
Net assets released from restrictions (note 12)	149,340	(149,340)	-	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	7,326,363	91,986	437,005	7,855,354	8,575,760
EXPENSES:					
Instruction	3,580,787	-	-	3,580,787	3,518,063
Academic support	658,860	-	-	658,860	610,208
Sponsored programs	547,961	-	-	547,961	821,052
Student services	1,170,655	-	-	1,170,655	1,129,617
Institutional support	1,683,913	-	-	1,683,913	1,713,610
Plant operation and maintenance	2,586,782	-	-	2,586,782	2,419,330
Community service	390,385	-	-	390,385	477,989
TOTAL EXPENSES (note 11)	10,619,343	-	-	10,619,343	10,689,869
CHANGE IN NET ASSETS	(3,292,980)	91,986	437,005	(2,763,989)	(2,114,109)
(ACCUMULATED DEFICIT) NET ASSETS - BEGINNING OF YEAR	(7,706,077)	893,883	36,927,645	30,115,451	32,229,560
(ACCUMULATED DEFICIT) NET ASSETS - END OF YEAR	$ (10,999,057)	$ 985,869	$ 37,364,650	$27,351,462	$ 30,115,451

See Independent Auditors' 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, 2016

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total 2016
REVENUES:				
Student tuition and fees	$ 3,879,399	$ -	$ -	$ 3,879,399
Less scholarships, fellowships and other assistance	(1,906,423)	-	-	(1,906,423)
Net tuition and fees	1,972,976	-	-	1,972,976
Teaching revenue from CLU	740,704	-	-	740,704
Contributions	2,782,726	16,500	2,116,751	4,915,977
Investment return (note 2)	(69,695)	-	(86,497)	(156,192)
Change in value of split-interest agreements	-	(253,457)	-	(253,457)
Rental income	1,060,860	-	-	1,060,860
Other income	294,892	-	-	294,892
TOTAL REVENUES	6,782,463	(236,957)	2,030,254	8,575,760
Net assets released from restrictions (note 12)	147,376	(147,376)	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	6,929,839	(384,333)	2,030,254	8,575,760
EXPENSES:				
Instruction	3,518,063	-	-	3,518,063
Academic support	610,208	-	-	610,208
Sponsored programs	821,052	-	-	821,052
Student services	1,129,617	-	-	1,129,617
Institutional support	1,713,610	-	-	1,713,610
Plant operation and maintenance	2,419,330	-	-	2,419,330
Community service	477,989	-	-	477,989
TOTAL EXPENSES (note 11)	10,689,869	-	-	10,689,869
CHANGE IN NET ASSETS	(3,760,030)	(384,333)	2,030,254	(2,114,109)
(ACCUMULATED DEFICIT) NET ASSETS - BEGINNING OF YEAR	(3,946,047)	1,278,216	34,897,391	32,229,560
(ACCUMULATED DEFICIT) NET ASSETS - END OF YEAR	$ (7,706,077)	$ 893,883	$ 36,927,645	$ 30,115,451

See Independent Auditors' 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, 2017 and 2016

	2017	2016
CASH FLOWS from OPERATING ACTIVITIES:		
Change in Net Assets from Operating Activities	$ (2,763,989)	$ (2,114,109)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	440,572	685,825
Net realized and unrealized (gains) losses on investments	(648,763)	184,296
Forgiveness of notes and loans payable	-	(150,000)
(Increase) decrease in operating assets:		
Pledges receivable	(209,450)	168,653
Accounts receivable, net	104,923	55,709
Related parties and employee loans	-	100,643
Student loans, net	40,223	60,873
Receivable from Bayan College	(116,374)	(58,961)
Prepaid expense and other assets	89,593	(68,078)
Beneficiary interest in split-interest agreements	(535,183)	356,748
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	194,242	(91,859)
Student deposits	(73,921)	12,551
Unearned revenue	(70,508)	(780,364)
Advances from the federal government	(258,870)	-
Liability under split-interest agreements	179,080	(272,009)
Net cash used in operating activities	(3,628,425)	(1,910,082)
CASH FLOWS from INVESTING ACTIVITIES:		
Purchase of property and equipment	(283,421)	(209,968)
Proceeds from sale of investments	6,217,459	4,647,800
Purchase of investments	(381,861)	(2,576,116)
Net cash provided by investing activities	5,552,177	1,861,716
CASH FLOWS from FINANCING ACTIVITIES:		
Proceeds from the issuance of new notes and loans payable	1,500,000	-
Principal payments on notes and loans payable	(1,594,610)	(100,311)
Net cash used in financing activities	(94,610)	(100,311)
Net increase (decrease) in cash and cash equivalents	1,829,142	(148,677)
Cash and cash equivalents at the beginning of the year	658,311	806,988
Cash and cash equivalents at the end of the year	$ 2,487,453	$ 658,311
Recap of cash and cash equivalents:		
Cash and cash equivalents	$ 2,487,453	$ 658,311
Cash paid for interest	$ 121,431	$ 192,041

See Independent Auditors' 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.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. Using this accounting method, revenues are recognized when earned and expenses are recognized in the period in which the liability is incurred.

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

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

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.

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

Endowment - Return Objectives and Risk Parameters

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

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

Endowment Spending Policy

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

Cash and Cash Equivalents

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

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.

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

Fair Value Measurements

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

Level 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.

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.

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

Property and Equipment

Property and equipment additions greater than $500 are recorded at historical cost or the fair market value at the date of donation, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets of 3 to 60 years.

Impairment of Long-Lived Assets

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

Collection Items

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

Unearned Revenue

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

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)

Management Fees

During the year ended June 30, 2014, the School entered into a three year agreement with Bayan College, an educational organization, to provide student, academic, administrative and support services. Fees for the services are included in other income in the statement of activities. As of June 30, 2017 and 2016, the School had a receivable balance of approximately $348,000 and $232,000, respectively. The current agreement expired on June 30, 2017. A new agreement was presented to both Boards of Trustees in spring 2017, which has not yet been approved.

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.

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.

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

Concentration of Credit Risks (continued)

As of June 30, 2017 and 2016, approximately 79% and 94% of the total pledges receivable was due from one donor, respectively. Management believes realization losses on pledges receivable amounts at the end of 2017 and 2016 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.

Reclassifications

Certain reclassifications have been made to the 2016 financial statement amounts to conform to the 2017 presentation.

Subsequent Events

Subsequent events have been evaluated through January 29, 2018, the date that these financial statements are available to be issued. There were no subsequent events that would require adjustments to or disclosure in these financial statements except as already disclosed in these financial statements.

NOTE 2 – INVESTMENTS:

The composition of investments, stated at fair value at June 30, 2017 and 2016, is as follows:

	2017	2016
Cash and money market accounts	$ 364,642	$ 470,608
Money market funds	-	904
Mutual funds - U.S. equities	276,027	166,036
Certificate of deposit	1,499,623	3,050,350
Corporate equities:		
Consumer discretionary	142,660	517,269
Consumer staples	-	305,389
Energy	-	130,593
Financials	-	670,206
Healthcare	-	524,418
Industrials	-	380,476
Information technology	-	589,090
Materials	-	154,111
Telecommunication services	-	41,641
Utilities	-	11,622
Equity blend	-	1,103
Fixed income:		
Long-term bond	-	124,528
Intermediate-term bond	-	117,358
Short-term bond	-	109,706
Fixed income bond	-	25,650
Fixed income funds	25,470	77,800
Fixed income blend	-	26,395
Total investments	$ 2,308,422	$ 7,495,253

The composition of investment return for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
Dividends and interest	$ 31,939	$ 28,734
Net realized and unrealized gain (loss)	648,763	(184,926)
Total investment return	$ 680,702	$ (156,192)

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, 2017 and 2016:

2017	Total	Level 1	Level 2	Level 3
Cash and money market accounts	$ 364,642	$ 364,642	$ -	$ -
Money market funds	-	-	-	-
Certificate of deposit	1,499,623	-	1,499,623	-
Mutual funds - U.S. equities	276,027	276,027	-	-
Corporate equities:				
Consumer discretionary	142,660	142,660	-	-
Fixed income funds	25,470	25,470	-	-
Total investments	$ 2,308,422	$ 808,799	$ 1,499,623	$ -

2017	Total	Level 1	Level 2	Level 3
Split-Interest Agreements:				
Gift annuities	$ 275,824	$ -	$ 275,824	$ -
Perpetual trusts:				
United Methodist Foundation of Sun City	8,493,732	-	-	8,493,732
Los Angeles United Methodist Foundation	1,000,000	-	-	1,000,000
Floy Van Nuys Trust	722,744	-	-	722,744
Total perpetual trusts	10,216,476	-	-	10,216,476
Charitable remainder trusts:				
Spoelstra Trust	321,392	-	-	321,392
Balkans Trust managed by Wells Fargo	800,234	-	800,234	-
Trusts managed by Clifford Swan	800,291	-	800,291	-
Total charitable remainder trusts	1,921,917	-	1,600,525	321,392
Total split-interest agreements	$ 12,414,217	$ -	$ 1,876,349	$ 10,537,868

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

2016	Total	Level 1	Level 2	Level 3
Cash and money market accounts	$ 470,608	$ 470,608	$ -	$ -
Money market funds	904	904	-	-
Certificate of deposit	3,050,350	-	3,050,350	-
Mutual funds - U.S. equities	166,036	166,036	-	-
Corporate equities:				
Consumer discretionary	517,269	517,269	-	-
Consumer staples	305,389	305,389	-	-
Energy	130,593	130,593	-	-
Financials	670,206	670,206	-	-
Healthcare	524,418	524,418	-	-
Industrials	380,476	380,476	-	-
Information technology	589,090	589,090	-	-
Materials	154,111	154,111	-	-
Telecommunication services	41,641	41,641	-	-
Utilities	11,622	11,622	-	-
Equity blend	1,103	1,103	-	-
Fixed income:				
Long-term bond	124,528	-	124,528	-
Intermediate-term bond	117,358	-	117,358	-
Short-term bond	109,706	-	109,706	-
Fixed income bond	25,650	-	25,650	-
Fixed income funds	77,800	77,800	-	-
Fixed income blend	26,395	26,395	-	-
Total investments	$ 7,495,253	$ 4,067,661	$ 3,427,592	$ -

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

2016	Total	Level 1	Level 2	Level 3
Split-Interest Agreements:				
Gift annuities	$ 263,451	$ -	$ 263,451	$ -
Perpetual trusts:				
United Methodist Foundation of Sun City	8,094,150	-	-	8,094,150
Los Angeles United Methodist Foundation	1,000,000	-	-	1,000,000
Floy Van Nuys Trust	685,319	-	-	685,319
Total perpetual trusts	9,779,469	-	-	9,779,469
Charitable remainder trusts:				
Spoelstra Trust	308,204	-	-	308,204
Balkins Trust managed by Wells Fargo	726,550	-	726,550	-
Trusts managed by Clifford Swan	801,360	-	801,360	-
Total charitable remainder trusts	1,836,114	-	1,527,910	308,204
Total split-interest agreements	$ 11,879,034	$ -	$ 1,791,361	$ 10,087,673

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, 2017 and 2016:

2017	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	$ 8,094,150	$ 399,582	$ -	$ -	$ 8,493,732
Los Angeles United Methodist Foundation	1,000,000	-	-	-	1,000,000
Floy Van Nuys Trust	685,319	37,425	-	-	722,744
Spoelstra Trust	308,204	13,188	-	-	321,392
Total	$ 10,087,673	$ 450,195	$ -	$ -	$ 10,537,868
2016					
Split-Interest Agreements:					
United Methodist Foundation of Sun City	$ 8,093,768	$ 382	$ -	$ -	$ 8,094,150
Los Angeles United Methodist Foundation	1,000,000	-	-	-	1,000,000
Floy Van Nuys Trust	763,491	(78,172)	-	-	685,319
Spoelstra Trust	314,092	(5,888)	-	-	308,204
Total	$ 10,171,351	$ (83,678)	$ -	$ -	$ 10,087,673

The amount attributable to the change in unrealized (losses) gains relating to assets still held at year end was $450,195 and ($83,678) for the years ended June 30, 2017 and 2016, respectively.

NOTE 4 – PLEDGES RECEIVABLE:

As of June 30, 2017 and 2016, pledges receivable, net of discount to present value (at discount rate of 4%), were as follows:

	2017	2016
Within one year	$ 1,120,957	$ 363,287
Within two and five years	-	638,525
Gross pledges receivable	1,120,957	1,001,812
Less allowance for uncollectible pledges	(118,743)	(118,743)
Less discount to present value	-	(90,305)
Total	$ 1,002,214	$ 792,764

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, 2017 and 2016, were $49,309 and $37,291 respectively, from the California-Pacific Annual Conference and $45,929 and $47,329, respectively, from the Desert Southwest Annual Conference.

At June 30, 2017 and 2016, the outstanding balances of loans to an officer and some faculty members of the School was $199,357, 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. All loans are current, and no allowance is recorded uncollectible loans.

NOTE 6 – LAND HELD FOR SALE:

Land held for sale consists of the following properties at June 30, 2017 and 2016:

	2017	2016
Barstow, California	$ 135,765	$ 135,765
Other	34,500	34,500
Total	$ 170,265	$ 170,265

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 – SPLIT-INTEREST AGREEMENTS:

The composition of beneficiary interest in split-interest agreements, stated at fair value at June 30, 2017 and 2016, is as follows:

	2017	2016
Perpetual Trusts:		
United Methodist Foundation of Sun City	$ 8,493,732	$ 8,094,150
Los Angeles United Methodist Foundation	1,000,000	1,000,000
Floy Van Nuys Trust	722,744	685,319
Total Perpetual Trusts	10,216,476	9,779,469
Charitable Remainder Trusts:		
Spoelstra Trust	321,392	308,204
Trusts Administered by the School:		
Balkans Trust	800,234	726,550
Other Trusts	800,291	801,360
Total Charitable Remainder Trusts	1,921,917	1,836,114
Gift Annuities - Administered by the School	275,824	263,451
Total Beneficiary Interest in Split-Interest Agreements	$ 12,414,217	$ 11,879,034

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, 2017 and 2016, was 6%.

NOTE 8 – PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at June 30, 2017 and 2016:

	2017	2016
Land	$ 315,253	$ 315,253
Buildings and improvements	18,073,529	18,073,529
Furniture and fixtures	2,190,851	2,184,210
Equipment and vehicles	3,561,950	3,555,013
Library books	5,534,383	5,264,540
Other	12,566	12,566
Total	29,688,532	29,405,111
Less: accumulated depreciation	(15,211,463)	(14,770,891)
Total Property and Equipment, net	$ 14,477,069	$ 14,634,220

NOTE 9 – LINE OF CREDIT:

The School has a line of credit with a financial institution with available borrowings up to $1,500,000. This line of credit is secured by a certificate of deposit valued at $1,500,000. The line of credit carried an interest rate of 3.35% for 2017 and 2016, and expired on June 18, 2017. At June 30, 2017 and 2016, the outstanding balance under the line of credit was $0 and $1,491,528, respectively.

NOTE 10 – NOTE AND LOAN PAYABLE:

At June 30, 2017 and 2016, the School has an unsecured note payable to Watson Family Trust for $788,524, respectively. The note bears interest at 4%. On May 30, 2012, the Watson Family agreed to forgive $150,000 on May 30 of each year until the note is fully forgiven, with payments changed to interest-only for the duration of the note. The School recorded principal forgiveness as temporarily restricted support and an increase in contribution receivable net of discount in the amount of $1,141,326 from the year ended June 30, 2012. Effective May 12, 2017, Watson Family Trust made a subsequent change to the terms of the note payable, requesting the School to add the monthly interest to the principal balance outstanding, starting from $788,524. This outstanding loan balance is anticipated to be paid in fiscal year 2018 through a single, lump sum, gift in an amount equal to the accrued principal and interest by the Watson Family Trust.

At June 30, 2017 and 2016, the School had a secured loan payable to United Methodist Federal Credit Union totaling $1,671,758 and $1,774,840, respectively. The loan is secured by the campus building and bears interest which is adjustable (minimum of 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. The loan agreement requires the School to be in compliance with various financial ratio covenants. As of June 30, 2017, the School was not in compliance with certain loan covenants; however, the School subsequently obtained a waiver for the covenant violations.

NOTE 10 – NOTES AND LOANS PAYABLE: (continued)

In June 2017, the School obtained a secured loan payable to California-Pacific Annual Conference of The United Methodist Church totaling $1,000,000. The loan is secured by the campus building and bears interest of 3.0% with monthly interest only payment of $2,500 through June 2019. At June 30, 2017, the outstanding balance on the loan was $1,000,000 which is due to be paid back in one lump sum payment in June 2019.

In June 2017, the School obtained a secured loan payable to Desert Southwest Annual Conference of The United Methodist Church totaling $500,000. The loan is secured by the campus building and bears interest of 3.0% with monthly interest only payment of $1,250 through June 2019. At June 30, 2017, the outstanding balance on the loan was $500,000 which is due to be paid back in one lump sum payment in June 2019.

Scheduled principal payments on the above debt at June 30, 2017 are expected to be paid by the School as follows:

Year Ending June 30		
2018	$	904,320
2019		1,623,114
2020		130,896
2021		138,678
2022		146,543
Thereafter		1,016,735
Total	$	3,960,286

NOTE 11 – FUNCTIONAL EXPENSES:

The functional allocation of expenses for the years ended June 30, 2017 and 2016, are as follows:

		2017		2016
Program Expenses	$	8,207,072	$	8,222,608
General and Administrative		1,093,862		1,182,318
Fundraising		1,318,409		1,284,944
Total	$	10,619,343	$	10,689,869

NOTE 12 – NET ASSETS:

At June 30, 2017 and 2016, temporarily restricted net assets were available for the following purposes:

	2017	2016
School projects and salary support	$ 570,730	$ 698,220
Split-interest agreements	115,409	17,233
Time restriction	277,230	155,930
Other	22,500	22,500
Total Temporarily Restricted Net Assets	$ 985,869	$ 893,883

Amounts released from temporary restrictions during the years ended June 30, 2017 and 2016 were as follows:

	2017	2016
Time restriction	$ 21,850	$ 30,000
University and school project	127,490	117,376
Total	$ 149,340	$ 147,376

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, 2017 and 2016, in total and by type of endowment fund, showing donor-restricted endowment funds are as follows:

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- restricted endowment funds	$ (26,131,543)	$ -	$ 37,364,650	$ 11,233,107

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- restricted endowment funds	$ (21,894,391)	$ -	$ 36,927,645	$ 15,033,254

NOTE 13 – ENDOWMENT: (continued)

Changes in endowment assets for the year ended June 30, 2017 and 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	$ (17,158,991)	$ -	$ 34,897,391	$ 17,738,400
Net depreciation (realized and unrealized)	(87,600)	-	(86,497)	(174,097)
Contributions (during the year)	-	-	2,116,751	2,116,751
Appropriation of endowment assets for expenditure *	(1,274,726)	-	-	(1,274,726)
Borrowings from endowment	(3,373,074)	-	-	(3,373,074)
Endowment net assets, June 30, 2016	(21,894,391)	-	36,927,645	15,033,254
Net depreciation (realized and unrealized)	209,653	-	437,005	646,658
Appropriation of endowment assets for expenditure *	(1,269,943)	-	-	(1,269,943)
Borrowings from endowment	(3,176,862)	-	-	(3,176,862)
Endowment net assets, June 30, 2017	(26,131,543)	-	37,364,650	11,233,107

* 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, 2017 and 2016, the cumulative borrowings from the endowment pool were $16,246,107 and $13,069,245, respectively.

At June 30, 2017, the School's endowment was deficient, or "underwater," by $26,131,543, reflecting annual appropriations per School's investment policy totaling $1,269,943. At June 30, 2016, the endowment was deficient, or "underwater," by $21,894,391, reflecting annual appropriations per School's investment policy totaling $1,274,726.

NOTE 14 – RETIREMENT PLAN:

The School participates in a defined contribution plan for its faculty, administrators, and staff. Under the plan, the School contributed $381,703 and $347,760 for the years ended June 30, 2017 and 2016, 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 8% of salaries for employees that have been with the School for more than four years. Contributions to faculty are determined by rank (6% for assistant professors, 8% 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, 2017 and 2016.

NOTE 16 – 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 17 – 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 School is currently in compliance with the composite score requirement of 1.5. As a result of this, the School is required to establish an irrevocable letter of credit required by the U.S. Department of Education in the amount of $1,489,169. A letter of credit in the amount of $1,489,169 has been issued by United Methodist Federal Credit Union on August 29, 2017 which will expire on September 30, 2018.

NOTE 18 – MANAGEMENT PLANS:

Management has further worked toward stabilizing the School's finances. During the year ended June 30, 2017, the School accomplished the following:

1. Increased student headcount from 335 to 386 and increase of 15.2%. Net tuition revenues were up by roughly 28%, nearly doubling expected net tuition revenue growth of 15%.
2. Enrollment in online education programs accounts for much of the tuition revenue growth. An innovative model for provisioning digital library resources to support online and hybrid students as well as traditional students is already saving the School tens of thousands of dollars in library leases and acquisitions.
3. Faculty and staff retirements during fiscal year 2017 were not replaced at the same levels.
4. The School initiated the due diligence process for embedding within a larger institution in the next two to three years. This will eliminate much of the central administrative costs, and all of the physical plant costs. Further, the net proceeds of the sale of the campus can be used to repay the School's endowment, relocation expenses, employee separation expenses, and transitional program costs during the anticipated move.
5. Legal proceedings to enable the most advantageous sale of the campus were initiated.
6. Short-term financing was negotiated with conferences of The United Methodist Church, with other agencies of The United Methodist Church, with individuals, and with employees to ensure access to adequate cash until the sale of the campus and the transition to a larger institution can be consummated.

During fiscal year 2018, management has accomplished or will be working on the following:

1. Management will be devoting resources to support the legal proceedings for the sale of the physical campus.
2. Management will be devoting resources to complete the due diligence process for embedding within a larger institution.
3. The School's personnel mix will be reviewed in preparation for any embedding scenario
4. Evaluation of the physical plant to inform new policies and procedures for preventive maintenance and for repairs and replacements in light of future plans for the campus and the programs the campus must support. Return on investment calculations will take into account the near-term possibility of a sale of all or part of the campus.

USMAN ILYAS
LICENSED CERTIFIED PUBLIC ACCOUNTANT

uilyas786@outlook.com
(949) 273 8509

Independent Auditors' 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, dba: Claremont School of Theology
Claremont, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial statements contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southern California School of Theology (dba: Claremont School of Theology) (the School), which comprise the statement of financial position as of June 30, 2017, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. During our audit, we did not identify any certain deficiencies, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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 consolidated 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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the School’s internal control 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

Usman Ilyas

Usman Ilyas, CPA

Lake Forest, California
January 29, 2018

USMAN ILYAS
LICENSED CERTIFIED PUBLIC ACCOUNTANT
uilyas786@outlook.com
(949) 273 8509

Independent Auditors' Report on Compliance for Each Major Federal Program And Report on Internal Control Over Compliance Required By the Uniform Guidance

Board of Directors
Southern California School of Theology, dba Claremont School of Theology
Claremont, California

Report on Compliance for Each Major Federal Program

We have audited Southern California School of Theology's (dba: Claremont School of Theology) (the School) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2017. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Usman Ilyas

Usman Ilyas, CPA

Lake Forest, California
January 29, 2018

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Student Financial Assistance Cluster:				
U.S. Department of Education:				
Federal Work Study Program	84.033	N/A	-	45,209
Federal Perkins Loan Program - Loans Outstanding	84.038	N/A	-	268,793
Federal Direct Loans	84.268	N/A	-	2,838,440
Total Student Financial Assistance			-	3,152,442
Total Federal Awards			$ -	$ 3,152,442

See accompanying Notes to Schedule of Expenditures of Federal Awards

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2017

Section I – Summary of Auditors' Results

A. Financial Statements

1. Type of auditors' report issued: Unmodified

2. Internal control over financial reporting:

- Material weakness(es) identified? ____ yes __x__ no
- Significant deficiency(ies) identified? ____ yes __x__ none reported

3. Noncompliance material to financial statements noted? ____ yes __x__ no

Federal Awards

1. Internal control over major federal programs:

- Material weakness(es) identified? ____ yes __x__ no
- Significant deficiency(ies) identified? ____ yes __x__ none reported

2. Type of auditors' report issued on compliance for major federal programs: Unmodified

3. Any audit findings disclosed that are required to be reported in accordance with

   2 CFR 200.516(a)? ____ yes __x__ no

Identification of Major Federal Programs

U.S. Department of Education:	
Federal Work Study Program	84.033
Federal Perkins Loan Program - Loans Outstanding	84.038
Federal Direct Loans	84.268

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low-risk auditee? ____ yes __x__ no

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2017

Section II – Financial Statement Findings

There were no financial statement findings noted during the fiscal year ended June 30, 2017.

Section III – Federal Award Findings

There were no federal award findings noted during the fiscal year ended June 30, 2017.

Section IV – Prior Year Findings

Predecessor auditor findings and current status is as follows:

Financial Statement Findings

2016 – 001 – Lack of Segregation of Duties

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Criteria:
An essential part of internal control is that procedures are properly segregated and the results of their performance be adequately reviewed. This is normally accomplished by assigning duties so that 1) no one person handles a transaction from beginning to end, and 2) incompatible duties between functions are not handled by the same person. In addition, a review of these completed duties should be performed by an individual independent of those functions.

Condition:
Due to the limited number of personnel available, the accounting and financial aid staff exercise considerable control over the recording and reporting of transactions.

While obtaining an understanding of the School's internal control processes, we noted instances where no reconciliation or review procedures have been established due to limited resources. We also noted other instances where review of certain processes and reconciliations was missing evidence that the schedule was independently reviewed and approved.

Cause:
The School does not have processes and/or review procedures in place to provide proper separation of duties, or evidence of an independent review.

Effect:
There is an increased risk that errors or irregularities may occur and not be detected on a timely basis. Also, when separation of duties are inadequate, there is increased opportunity for fraud or unintentional errors that could occur and not be detected.

Recommendation:
We recommend School's management and governance be aware of the lack of segregation of duties within the accounting and financial aid functions, and assess whether additional segregation of duties can be attained in a manner that is beneficial when reviewing the cost versus its benefits. When possible, we recommend duties performed be reviewed by someone independent of those functions, and evidence of that review be retained.

Prior Year Findings (Continued)

Financial Statement Findings (Continued)

2016 – 001 – Lack of Segregation of Duties (Continued)

Management Response:
Management has added a bookkeeping position to provide added transactional capacity and another set of eyes to oversee transactions passing through the business office. Further, second signature authority for transactions greater than $500 forces these transactions to authorized signers who are outside of the business office.

Continuing staff education in financial transactions occurs when irregularities are identified. Feedback on transactions is given, when appropriate, to ensure that irregularities are not to be repeated. This is important to do for individuals outside of the business office to build a common understanding of the standards for transactions as the foundation for a culture of compliance.

Current Status:
With the implementation of additional controls and staffing this finding was resolved by the School.

Prior Year Findings (Continued)

Financial Statement Findings (Continued)

2016 – 002 – Oversight of the Financial Reporting Process

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Criteria:
Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the statements of financial position, changes in net assets, and cash flows, and disclosures in the statements, in conformity with accounting principles generally accepted in the United States of America.

Condition:
Numerous adjustments were proposed and posted through the audit process. These adjustments were a necessary step in ensuring that the financial statements were fairly stated under U.S. generally accepted accounting principles (GAAP).

Also, as part of the audit, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

Cause:
Limited resources of the School.

Effect:
Financial statements could be materially misstated. Also, the School was not able to independently prepare consolidated financial statements in conformity with GAAP.

Recommendation:
The School should continue to review all GAAP requirements for transactions entered into to ensure conformity with GAAP and to establish and maintain internal controls including monitoring to ensure the fair presentation of the financial data.

Management Response:
Management will work with the business office staff to develop their skills and their familiarity with GAAP.

Current Status:
With the implementation of additional controls and staff training this finding was resolved by the School.

Prior Year Findings (Continued)

Federal Award Findings

2016 – 003

Federal agency: U.S. Department of Education

Federal program title: Student Financial Aid

CFDA Number: Student Financial Aid Cluster

Award Period: 2015-2016

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Criteria or specific requirement: Based on Department of Education (DOE) guidelines, institutions must complete the annual security report and distribute it to employees.

Condition: During our testing, it was noted this report is not being completed.

Context and Cause: The School was unaware of the compliance requirement.

Effect: The School is not in compliance relating to the campus security report.

Repeat Finding: No

Auditor's Recommendation: We recommend that the School complete the annual campus security report and distribute it to all employees.

Views of responsible officials and planned corrective actions:

Actions planned in response to finding: Management has assigned a staff member the responsibility of drafting the required annual security report in the appropriate format for distribution to employees, to students, and to the public. The discovery of this compliance issue was too late to effectively comply with the fall 2016 submission date. The concerted effort will be made to be in compliance by the fall 2017 submission.

Current Status: Resolved.

Prior Year Findings (Continued)

Federal Award Findings (Continued)

2016 – 004

Federal agency: U.S. Department of Education

Federal program title: Student Financial Aid

CFDA Number: Student Financial Aid Cluster

Award Period: 2015-2016

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Criteria or specific requirement: Based on Department of Education (DOE) guidelines, institutions must report accurately the enrollment status of all students regardless if they receive aid from the institution or not. Changes to said status are required to be reported within 30 days of becoming aware of the status change, or with the next scheduled transmission of statuses if the scheduled transmission is within 60 days. In addition, regulations require that an institution make necessary corrections and return the records within 10 days for any roster files that do not pass the NSLDS enrollment reporting edits.

Condition: During our testing, we noted that the National Student Loan Data Systems (NSLDS) rosters returned yielded error reports that were not corrected and resubmitted within the required 10 days. The School utilizes the National Student Clearinghouse (NSC) as a third-party provider in order to submit student information to NSLDS. NSC had software conversion issues that failed in monitoring and correcting submission errors. In addition, during our testing of the enrollment status of students, it was noted multiple students' enrollment statuses were not reported timely to NSLDS.

Context: The School utilizes the National Student Clearinghouse (NSC) as a third-party provider in order to submit student information to NSLDS. NSC had software conversion issues that failed in monitoring and correcting submission errors.

Cause and Effect: NSC had software conversion issues that failed in monitoring and correcting submission errors. The School relied on NSC in order to submit student information to NSLDS. The School did not update student enrollment statuses correctly or timely to NSLDS.

Prior Year Findings (Continued)

Federal Award Findings (Continued)

2016 – 004 (Continued)

Repeat Finding: No

Auditor's Recommendation: We recommend that the School put a process in place to ensure determination of all students who withdraw or graduate are accurately and timely reported to NSLDS. The system should include understanding if and when the NSC third-party servicer has corrected the failed software programming.

Views of responsible officials and planned corrective actions:

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Actions planned in response to finding: Management has reviewed the student processes for adding and dropping classes, and Clearinghouse reporting processes. Stricter enforcement of add and drop deadlines will tighten the window for these transactions and limit the number of out-of-process transactions, and help ensure any errors are identified and resolved in a timely manner.

Planned completion date for corrective action plan: Spring 2017

Current Status: Resolved.

2016 – 005

Federal agency: U.S. Department of Education

Federal program title: Student Financial Aid

CFDA Number: Student Financial Aid Cluster

Award Period: 2015-2016

Type of Finding:

- Significant Deficiency in Internal Control over Compliance

Criteria or specific requirement: A fundamental concept in a good system for internal control is the separation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Condition: Due to the limited number of personnel available, the student financial aid staff exercises considerable control over the packaging of financial aid awards.

Context: There is only one person within the student financial aid department who performs all financial aid related tasks.

Prior Year Findings (Continued)

Federal Award Findings (Continued)

2016 – 005 (Continued)

Cause: The School does not have processes in place to provide proper separation of duties.

Effect: When separation of duties are inadequate, there is a resulting danger that intentional fraud or unintentional errors could occur and not be detected.

Repeat Finding: No

Auditor's Recommendation: We recommend the School's management be aware of the lack of segregation of duties within the student financial aid functions and assess whether additional segregation of duties and awarding of financial aid is cost beneficial.

Views of responsible officials and planned corrective actions:

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Actions planned in response to finding: Management is aware of the significant risks due to the lack of segregation of duties. The addition of a bookkeeper in the business office, and the addition of a bursar function to handle student billing will allow the controller to distance himself from the transactions and provide independent oversight of the student billing and financial aid processes. The development of these processes and the associate training will continue through FY2017.

Planned completion date for corrective action plan: Ongoing in 2016-2017 and future years.

Current Status: Resolved.