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

FINANCIAL STATEMENTS
June 30, 2016 and 2015
And For The Years Then Ended

Together with Independent Auditors' Report

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

CONTENTS
June 30, 2016 and 2015

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 statements of financial position as of June 30, 2016 and 2015, and the related 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.

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. 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 auditors' 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 School'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 School'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.

Board of Trustees
Southern California School of Theology, dba: Claremont School of Theology

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, 2016 and 2015, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Pasadena, California
March 2, 2017

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

ASSETS:	**2016**	**2015**
Cash and cash equivalents	$ 658,311	$ 776,805
Pledges receivable, net (note 4)	792,764	961,417
Other receivables:		
Accounts receivable, net of allowance for doubtful accounts of $71,524 in 2016 and 2015	544,206	599,915
Related parties and employee loans (note 5)	199,357	300,000
Student loans, net of allowance for doubtful accounts of $147,350 in 2016 and 2015	181,003	241,876
Receivable from Bayan College	231,676	172,715
Prepaid expense and other assets	172,964	104,886
Restricted cash (note 1)	-	30,183
Investments, at fair value (notes 2 and 3)	7,495,253	9,751,233
Land held for sale (note 6)	170,265	170,265
Beneficiary interest in split-interest agreements (notes 3 and 7)	11,879,034	12,235,782
Property and equipment, net of accumulated depreciation (note 8)	14,634,220	15,110,077
Total assets	$ 36,959,053	$ 40,455,154
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	$ 390,818	$ 482,677
Line of credit (note 9)	1,491,528	1,494,938
Student deposits	134,632	122,081
Unearned revenue	568,342	1,348,706
Advances from the federal government	307,194	307,194
Notes and loans payable (note 10)	2,563,364	2,810,265
Liability under split-interest agreements (note 7)	1,387,724	1,659,733
Total liabilities	6,843,602	8,225,594
Commitments (note 16)		
Net assets:		
Unrestricted (accumulated deficit)	(7,706,077)	(3,946,047)
Temporarily restricted (note 12)	893,883	1,278,216
Permanently restricted (notes 12 and 13)	36,927,645	34,897,391
Total net assets	30,115,451	32,229,560
Total liabilities and net assets	$ 36,959,053	$ 40,455,154

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
with comparative totals for 2015

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total 2016	Total 2015
REVENUES:					
Student tuition and fees	$ 3,879,399	$ -	$ -	$ 3,879,399	$ 3,769,971
Less scholarships, fellowships and other assistance	(1,906,423)	-	-	(1,906,423)	(1,994,735)
Net tuition and fees	1,972,976	-	-	1,972,976	1,775,236
Teaching revenue from CLU	740,704	-	-	740,704	1,184,422
Contributions	2,782,726	16,500	2,116,751	4,915,977	2,260,665
Investment return (note 2)	(69,695)	-	(86,497)	(156,192)	185,314
Change in value of split-interest agreements	-	(253,457)	-	(253,457)	29,567
Rental income	1,060,860	-	-	1,060,860	1,025,922
Gain on disposal	-	-	-	-	332,500
Other income	294,892	-	-	294,892	384,135
TOTAL REVENUES	6,782,463	(236,957)	2,030,254	8,575,760	7,177,761
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	7,177,761
EXPENSES:					
Instruction	2,724,715	-	-	2,724,715	2,550,477
Academic support	1,612,834	-	-	1,612,834	1,690,069
Sponsored programs	101,759	-	-	101,759	139,296
Student services	999,727	-	-	999,727	1,081,575
Institutional support	2,746,211	-	-	2,746,211	2,866,351
Plant operation and maintenance	2,264,949	-	-	2,264,949	2,525,522
Community service	239,674	-	-	239,674	231,551
TOTAL EXPENSES (note 11)	10,689,869	-	-	10,689,869	11,084,841
CHANGE IN NET ASSETS	(3,760,030)	(384,333)	2,030,254	(2,114,109)	(3,907,080)
(ACCUMULATED DEFICIT) NET ASSETS - BEGINNING OF YEA	(3,946,047)	1,278,216	34,897,391	32,229,560	36,136,640
(ACCUMULATED DEFICIT) NET ASSETS - END OF YEAR	$ (7,706,077)	$ 893,883	$ 36,927,645	$ 30,115,451	$ 32,229,560

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, 2015

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES:				
Student tuition and fees	$ 3,769,971	$ -	$ -	$ 3,769,971
Less scholarships, fellowships and other assistance	(1,994,735)	-	-	(1,994,735)
Net tuition and fees	1,775,236	-	-	1,775,236
Teaching Revenue from CLU	1,184,422	-	-	1,184,422
Contributions	2,032,955	177,710	50,000	2,260,665
Investment return (note 2)	390,819	(47,305)	(158,200)	185,314
Change in value of split-interest agreements	-	29,567	-	29,567
Rental income	1,025,922	-	-	1,025,922
Gain on disposal	332,500	-	-	332,500
Other Income	384,135	-	-	384,135
TOTAL REVENUES	7,125,989	159,972	(108,200)	7,177,761
Net assets released from restrictions (note 12)	254,668	(254,668)	-	-
TOTAL REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	7,380,657	(94,696)	(108,200)	7,177,761
EXPENSES:				
Instruction	2,550,477	-	-	2,550,477
Academic support	1,690,069	-	-	1,690,069
Sponsored programs	139,296	-	-	139,296
Student services	1,081,575	-	-	1,081,575
Institutional support	2,866,351	-	-	2,866,351
Plant operation and maintenance	2,525,522	-	-	2,525,522
Community service	231,551	-	-	231,551
TOTAL EXPENSES (note 11)	11,084,841	-	-	11,084,841
CHANGE IN NET ASSETS	(3,704,184)	(94,696)	(108,200)	(3,907,080)
(ACCUMULATED DEFICIT) NET ASSETS - BEGINNING OF YEAR	(241,863)	1,372,912	35,005,591	36,136,640
(ACCUMULATED DEFICIT) NET ASSETS - END OF YEAR	$ (3,946,047)	$ 1,278,216	$ 34,897,391	$ 32,229,560

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, 2016 and 2015

	2016	2015
CASH FLOWS from OPERATING ACTIVITIES:		
Change in Net Assets from Operating Activities	$ (2,114,109)	$ (3,907,080)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	685,825	764,253
Net realized and unrealized (gains) losses on investments	184,296	(23,235)
Gain on disposal of land	-	(332,500)
Forgiveness of notes and loans payable	(150,000)	(150,000)
(Increase) decrease in operating assets:		
Pledges receivable	168,653	92,460
Accounts receivable, net	55,709	(430,372)
Related parties and employee loans	100,643	100,000
Student loans, net	60,873	36,588
Receivable from Bayan College	(58,961)	(172,715)
Receivable from Claremont Lincoln University	-	448,966
Prepaid expense and other assets	(68,078)	5,080
Beneficiary interest in split-interest agreements	356,748	91,475
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(91,859)	108,732
Student deposits	12,551	16,507
Unearned revenue	(780,364)	1,316,721
Liability under split-interest agreements	(272,009)	84,462
Net cash used in operating activities	(1,910,082)	(1,950,658)
CASH FLOWS from INVESTING ACTIVITIES:		
Purchase of property and equipment	(209,968)	(380,320)
Proceeds from sale of land	-	997,500
Proceeds from sale of investments	4,647,800	5,126,803
Purchase of investments	(2,576,116)	(3,636,190)
Net cash provided by investing activities	1,861,716	2,107,793
CASH FLOWS from FINANCING ACTIVITIES:		
Principal payments on note and loan payable	(100,311)	(94,767)
Net increase (decrease) in cash and cash equivalents	(148,677)	62,368
Cash and cash equivalents at the beginning of the year	806,988	744,620
Cash and cash equivalents at the end of the year	$ 658,311	$ 806,988
Recap of cash and cash equivalents:		
Cash and cash equivalents	$ 658,311	$ 776,805
Restricted cash	-	30,183
	$ 658,311	$ 806,988
Cash paid for interest	$ 192,041	$ 180,489

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.

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.

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. Agreement will expire on June 30, 2017, renewable for one or more additional terms. Fees for the services are included in other income in the statement of activities. As of June 30, 2016 and 2015, the School had a receivable balance of approximately $232,000 and $172,000, respectively.

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.

As of June 30, 2016 and 2015, approximately 94% and 81% of the total pledges receivable was due from one donor, respectively. Management believes realization losses on pledges receivable amounts at the end of 2016 and 2015 were immaterial.

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

Use of Accounting Estimates

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

Subsequent Events

Subsequent events have been evaluated through March 2, 2017, 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, 2016 and 2015

NOTE 2 – INVESTMENTS:

The composition of investments, stated at fair value at June 30, 2016 and 2015, is as follows:

	2016	2015
Cash and money market accounts	$ 470,608	$ 513,445
Money market funds	904	904
Mutual funds - U.S. equities	166,036	189,645
Certificate of deposit	3,050,350	2,732,805
Corporate equities:		
Consumer discretionary	517,269	975,217
Consumer staples	305,389	258,927
Energy	130,593	258,829
Financials	670,206	1,273,191
Healthcare	524,418	860,138
Industrials	380,476	656,004
Information technology	589,090	972,375
Materials	154,111	240,429
Telecommunication services	41,641	69,391
Utilities	11,622	13,123
Equity blend	1,103	4,751
Fixed income:		
Long-term bond	124,528	247,020
Intermediate-term bond	117,358	169,053
Short-term bond	109,706	182,482
Fixed income bond	25,650	133,504
Fixed income funds	77,800	-
Fixed income blend	26,395	-
Total investments	$ 7,495,253	$ 9,751,233

The composition of investment return for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Dividends and interest	$ 28,734	$ 162,079
Net realized and unrealized gain (loss)	(184,926)	23,235
Total investment return	$ (156,192)	$ 185,314

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, 2016 and 2015:

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

NOTE 3 – FAIR VALUE MEASUREMENTS:
(continued)

2015	Total	Level 1	Level 2	Level 3
Cash and money market accounts	$ 513,445	$ 513,445	$ -	$ -
Money market funds	904	904	-	-
Certificate of deposit	2,732,805	-	2,732,805	-
Mutual funds - U.S. equities	189,645	189,645	-	-
Corporate equities:				
Consumer discretionary	975,217	975,217	-	-
Consumer staples	258,927	258,927	-	-
Energy	258,829	258,829	-	-
Financials	1,273,191	1,273,191	-	-
Healthcare	860,138	860,138	-	-
Industrials	656,004	656,004	-	-
Information technology	972,375	972,375	-	-
Materials	240,429	240,429	-	-
Telecommunication services	69,391	69,391	-	-
Utilities	13,122	13,122	-	-
Equity Blend	4,751	4,751	-	-
Fixed income:				
Long-term bond	247,020	-	247,020	-
Intermediate-term bond	169,053	-	169,053	-
Short-term bond	182,482	-	182,482	-
Fixed income bond	23,940	-	23,940	-
Fixed income funds	61,736	61,736	-	-
Fixed income blend	47,829	47,829	-	-
Total investments	$ 9,751,233	$ 6,395,933	$ 3,355,300	$ -

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

2015	Total	Level 1	Level 2	Level 3
Split-Interest Agreements:				
Gift annuities	$ 511,020	$ -	$ 511,020	$ -
Perpetual trusts:				
United Methodist Foundation of Sun City	8,093,768	-	-	8,093,768
Los Angeles United Methodist Foundation	1,000,000	-	-	1,000,000
Floy Van Nuys Trust	763,491	-	-	763,491
Total perpetual trusts	9,857,259	-	-	9,857,259
Charitable remainder trusts:				
Spoelstra Trust	314,092	-	-	314,092
Balkins Trust managed by Wells Fargo	728,898	-	728,898	-
Trusts managed by Clifford Swan	824,513	-	824,513	-
Total charitable remainder trusts	1,867,503	-	1,553,411	314,092
Total split-interest agreements	$ 12,235,782	$ -	$ 2,064,431	$ 10,171,351

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, 2016 and 2015:

2016	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	$ 8,093,768	$ 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

2015	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	$ 8,243,261	$ (149,493)	$ -	$ -	$ 8,093,768
Los Angeles United Methodist Foundation	1,000,000	-	-	-	1,000,000
Floy Van Nuys Trust	772,198	(8,707)	-	-	763,491
Spoelstra Trust	322,798	(8,706)	-	-	314,092
Total	$ 10,338,257	$ (166,906)	$ -	$ -	$ 10,171,351

The amount attributable to the change in unrealized (losses) gains relating to assets still held at year end was $38,383 and ($166,106) for the years ended June 30, 2016 and 2015, respectively.

NOTE 4 – PLEDGES RECEIVABLE:

As of June 30, 2016 and 2015, pledges receivable, net of discount to present value (at discount rate of 4%), were as follows:

	2016	2015
Within one year	$ 363,287	$ 331,127
Within two and five years	638,525	759,000
Thereafter	-	38,525
Gross pledges receivable	1,001,812	1,128,652
Less allowance for uncollectible pledges	(118,743)	(46,500)
Less discount to present value	(90,305)	(120,735)
Total	$ 792,764	$ 961,417

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, 2016 and 2015, were $37,291 and $31,772, respectively, from the California-Pacific Annual Conference and $47,329 and $41,885, respectively, from the Desert Southwest Annual Conference.

At June 30, 2016 and 2015, the outstanding balances of loans to an officer and some faculty members of the School aggregated $199,357 and $300,000, respectively. Such loans were made in connection with the purchases of personal residences. In the majority of cases, the School participates in the appreciation of the respective property in lieu of interest. These loans are payable in full to the School within one year of sale of the property or when the faculty's affiliation with the School is terminated. 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, 2016 and 2015:

	2016	2015
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.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 7 – SPLIT-INTEREST AGREEMENTS:

The composition of beneficiary interest in split-interest agreements, stated at fair value at June 30, 2016 and 2015, is as follows:

	2016	2015
Perpetual Trusts:		
United Methodist Foundation of Sun City	$ 8,094,150	$ 8,093,768
Los Angeles United Methodist Foundation	1,000,000	1,000,000
Floy Van Nuys Trust	685,319	763,491
Total Perpetual Trusts	9,779,469	9,857,259
Charitable Remainder Trusts:		
Spoelstra Trust	308,204	314,092
Trusts Administered by the School:		
Balkans Trust	726,550	728,898
Other Trusts	801,360	824,513
Total Charitable Remainder Trusts	1,836,114	1,867,503
Gift Annuities - Administered by the School	263,451	511,020
Total Beneficiary Interest in Split-Interest Agreements	$ 11,879,034	$ 12,235,782

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, 2016 and 2015, was 6%.

NOTE 8 – PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at June 30, 2016 and 2015:

	2016	2015
Land	$ 315,253	$ 315,253
Buildings and improvements	18,073,529	18,059,749
Furniture and fixtures	2,184,210	2,183,985
Equipment and vehicles	3,555,013	3,518,885
Library books	5,264,540	5,104,480
Other	12,566	12,791
Total	29,405,111	29,195,143
Less: accumulated depreciation	(14,770,891)	(14,085,066)
Total Property and Equipment, net	$ 14,634,220	$ 15,110,077

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 2016 and 2015, and expired on June 18, 2016. The line of credit was renewed and will expire on June 18, 2017. At June 30, 2016 and 2015, the outstanding balance under the line of credit was $1,491,528 and $1,494,938, respectively.

NOTE 10 – NOTE AND LOAN PAYABLE:

At June 30, 2016 and 2015, the School has an unsecured note payable to Watson Family Trust for $788,524 and $938,525, 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, 2016 and 2015, the School had a secured loan payable to United Methodist Federal Credit Union totaling $1,774,840 and $1,871,740, 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, 2016, 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)

Scheduled principal payments on the above debt at June 30, 2016 are expected to be paid by the School as follows:

Year Ending June 30		
2017	$	252,436
2018		258,910
2019		265,765
2020		273,114
2021		280,896
Thereafter		1,232,243
Total	$	2,563,364

NOTE 11 – FUNCTIONAL EXPENSES:

The functional allocation of expenses for the years ended June 30, 2016 and 2015, are as follows:

		2016		2015
Program Expenses	$	7,650,537	$	7,888,185
General and Administrative		1,409,102		1,452,137
Fundraising		1,630,230		1,744,519
Total	$	10,689,869	$	11,084,841

NOTE 12 – NET ASSETS:

At June 30, 2016 and 2015, temporarily restricted net assets were available for the following purposes:

	2016	2015
School projects and salary support	$ 698,220	$ 815,596
Split-interest agreements	17,233	270,690
Time restriction	155,930	169,430
Other	22,500	22,500
Total Temporarily Restricted Net Assets	$ 893,883	$ 1,278,216

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mounts released from temporary restrictions during the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Time restriction	$ 30,000	$ 163,001
University project	117,376	48,888
School projects and salary support	-	42,779
Total	$ 147,376	$ 254,668

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, 2016 and 2015, in total and by type of endowment fund, showing donor-restricted endowment funds are as follows:

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

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- restricted endowment funds	$ (17,158,991)	$ -	$ 34,897,391	$ 17,738,400

NOTE 13 – ENDOWMENT: (continued)

Changes in endowment assets for the year ended June 30, 2016 and 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	$ (15,684,139)	$ -	$ 35,005,591	$ 19,321,452
Net depreciation (realized and unrealized)	(193,902)	-	(158,200)	(352,102)
Contributions (during the year)	-	-	50,000	50,000
Appropriation of endowment assets for expenditure *	(1,259,946)	-	-	(1,259,946)
Borrowings from endowment	(21,004)	-	-	(21,004)
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

* 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, 2016 and 2015, the cumulative borrowings from the endowment pool were $13,069,245 and $9,696,171, respectively.

At June 30, 2016, the School's endowment was deficient, or "underwater," by $21,894,391, reflecting annual appropriations per School's investment policy totaling $1,274,726. At June 30, 2015, the endowment was deficient, or "underwater," by $17,158,991, reflecting annual appropriations per School's investment policy totaling $1,259,946.

NOTE 14 – RETIREMENT PLAN:

The School participates in a defined contribution plan for its faculty, administrators, and staff. Under the plan, the School contributed $347,760 and $385,380 for the years ended June 30, 2016 and 2015, 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. Contributions 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, 2016 and 2015.

NOTE 16 – COMMITMENTS:

Capital Lease

The School had financed phone equipment through a capital lease. The asset and liability under capital lease was recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is amortized over the estimated productive life. Amortization of the asset under capital lease is included in depreciation expense.

Asset acquired under the capital lease was as follows at June 30:

	2016	2015
Phone Equipment	$ 225,558	$ 225,558
Less: Accumulated Depreciation	(180,444)	(135,333)
Total	$ 45,114	$ 90,225

Future minimum payments under the capital lease as of June 30, 2016 were as follows:

Year Ending June 30,	Amount
2017	$ 50,854
2018	12,714
Total minimum lease payments	63,568
Less amount representing interest	(2,131)
Present Value of net minimum lease payments	$ 61,437

Interest rate on capitalized lease is at 5.2% and is imputed based on the lower of the School's incremental borrowing rate at the inception of lease or the lessor's implicit rate of return. The capital lease liability is included accounts payable and accrued expenses on the statement of financial position.

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 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 $1,427,967. A letter of credit in the amount of $1,427,967 has been issued by United Methodist Federal Credit Union on August 26, 2016 which will expire on September 30, 2017.

NOTE 19 – MANAGEMENT PLANS:

Management has further worked toward stabilizing the School's finances. During the year ended June 30, 2016, the School accomplished the following:

1. Increased student headcount from 288 to 315. Net tuition revenues were up by roughly 10%, lagging the headcount growth. This is attributed to a larger number of part-time students, taking few tuition units. Tuition rates were reviewed and aggressive increases will be in effect in FY2018. Tuition discounting policies are also being reviewed. Together, these actions are intended to increase net tuition by 15% or more.
2. Growth in online
3. Incentives to personnel and employee reorganization resulted in three faculty departures and six staff departures at the end of FY2015. Two new staff were hired to strengthen revenue-generation in admissions and in donor development. This cut approximately $1 million in budgeted expenses from FY2016.

NOTE 19 – MANAGEMENT PLANS: (continued)

4. Against planned expense reductions, some deferred maintenance issues could no longer be ignored for the safety of the campus community. Concrete repairs to reduce tripping hazards and the removal of drought-impacted vegetation were necessary to manage risk to people and property.
5. Studies for a renewal of the campus were completed and include plans for a considerable downsizing of the physical campus through a sale, lease, or other development of real estate not needed for the School's mission.

During FY2017, Management has accomplished or will be working on the following:

1. Tuition rates were reviewed and 13.5% increases were approved for FY2018 and FY2019, with the intention of increasing net tuition revenue. A study was commissioned from an independent research firm which affirmed that increases to gross tuition rates do not have much impact on admissions up to a point far beyond our current rates. If this is a mistake, the net tuition rate can be managed through discounting.
2. Further organizational cuts are being considered during fall 2016. Strategic cuts will be made to preserve as much of the School's distinctiveness as feasible. Management recognizes that significant changes are necessary to reduce costs, but not at the expense of revenue generation. Some student services and administrative services will be cut.
3. Major components of the physical plant will require replacement. Selective replacements and repairs are being done with an eye toward execution of master planning initiatives for the sale, lease, or other development of the campus.
4. Motivated interested parties have been identified for the outright sale of a portion or of all of the physical campus. The School has entered an exclusive right to negotiate agreement with one of these parties. Resolution of the real estate issues is likely beyond FY2017, but would provide considerable relief if the School can take care of problems over the next two years.
5. Discussions with a bank about a two-year bridge loan were completed in February 2017, with a formal loan application submitted in the same month. Loan terms are expected by the end of March 2017.
6. A study of the School's donors was completed during summer 2016 to determine giving capacity and readiness for a major fundraising campaign. The recommendation was to continue donor development to educate and to otherwise prepare donors for a significant donation in the future.