



Report of Independent Auditors and  
Financial Statements for

**Saint Katherine College**

December 31, 2014 and 2013

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

The Board of Trustees  
Saint Katherine College

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Saint Katherine College, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our 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 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 Saint Katherine College as of December 31, 2014, 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.

MOSS ADAMS<sub>LLP</sub>

***Other Matters***

*Prior Period Financial Statements*

The financial statements of Saint Katherine College as of December 31, 2013, were audited by other auditors whose report dated December 30, 2014 expressed an unmodified opinion on those financial statements.

*Moss Adams LLP*

San Diego, California

August 21, 2015

**SAINT KATHERINE COLLEGE**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2014 AND 2013**

	December 31,	
	2014	2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 16,396	\$ 57,765
Student accounts receivable, net (Note 2)	21,085	9,903
Prepaid expenses and other assets	21,067	36,521
Total current assets	<u>58,548</u>	<u>104,189</u>
<b>Non-current Assets</b>		
Student notes receivable, net (Note 2)	169,880	62,440
Property and equipment	199,157	52,279
Security deposits	6,066	6,066
Total non-current assets	<u>375,103</u>	<u>120,785</u>
Total assets	<u>\$ 433,651</u>	<u>\$ 224,974</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 107,247	\$ 45,079
Unearned tuition	101,790	167,953
Total current liabilities	<u>209,037</u>	<u>213,032</u>
<b>Non-current Liabilities</b>		
Deferred Rent	32,000	-
Total liabilities	<u>241,037</u>	<u>213,032</u>
<b>Commitments (Note 6)</b>		
<b>Unrestricted Net Assets</b>		
Total net assets	<u>192,614</u>	<u>11,942</u>
Total liabilities and net assets	<u>\$ 433,651</u>	<u>\$ 224,974</u>

**SAINT KATHERINE COLLEGE**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<b>Years Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>REVENUE</b>		
Student tuition and fees	\$ 846,712	\$ 714,407
Housing	330,075	236,516
Income from athletics	22,030	13,690
Other income	3,938	8,265
Net revenue	<u>1,202,755</u>	<u>972,878</u>
<b>SUPPORT</b>		
Contributions	1,697,191	657,031
Fundraising events	115,941	179,074
Direct event costs	(75,648)	(72,179)
Net support	<u>1,737,484</u>	<u>763,926</u>
Total support and revenue, net	<u>2,940,239</u>	<u>1,736,804</u>
<b>OPERATING EXPENSES</b>		
Athletic department	760,049	391,739
Administration	932,589	540,918
Faculty and instruction	582,358	436,082
Housing	369,138	265,645
Fundraising and development	115,433	96,541
Total operating expenses	<u>2,759,567</u>	<u>1,730,925</u>
<b>CHANGE IN NET ASSETS</b>	180,672	5,879
<b>UNRESTRICTED NET ASSETS</b>		
Beginning of year	<u>11,942</u>	<u>6,063</u>
End of year	<u>\$ 192,614</u>	<u>\$ 11,942</u>

**SAINT KATHERINE COLLEGE**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

	Years Ended December 31,	
	2014	2013
<b>OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 180,672	\$ 5,879
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Change in allowance for uncollectable receivables	112,445	63,408
Depreciation expense	28,126	11,676
Changes in operating assets and liabilities:		
Student accounts receivable	(231,067)	(91,085)
Prepaid expenses and other current assets	15,454	(32,821)
Security deposits	-	(6,066)
Accounts payable and accrued expenses	62,168	45,079
Unearned tuition	(66,163)	47,767
Deferred rent	32,000	-
Net cash provided by operating activities	<u>133,635</u>	<u>43,837</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	<u>(175,004)</u>	<u>(25,520)</u>
Net cash used in investing activities	<u>(175,004)</u>	<u>(25,520)</u>
<b>NET (DECREASE) INCREASE IN CASH</b>	(41,369)	18,317
<b>CASH</b>		
Beginning of year	<u>57,765</u>	<u>39,448</u>
End of year	<u>\$ 16,396</u>	<u>\$ 57,765</u>

# SAINT KATHERINE COLLEGE

## NOTES TO FINANCIAL STATEMENTS

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### Note 1 – Organization and Summary of Significant Accounting Policies

**Organization** – Founded in 2010, Saint Katherine College (the “College”) (a California Public Benefit Corporation) is an independent liberal arts college formed in the Orthodox Christian tradition.

The College is approved and licensed by the California Bureau for Private Postsecondary Education to award Bachelor of Arts and Bachelor of Science degrees. The College derives its revenues principally from student tuition as well as private donations and contributions. Additional support is generated by the College through fees associated with residential facilities, technology and student life services, administrative-type fees, as well as fundraising events. The College spends these resources to meet its instructional and educational mission.

**Basis of presentation** – The financial statements of the College have been prepared on the accrual basis of accounting.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American (“GAAP”) 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 and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Student accounts receivable and notes** – Student accounts receivable are for tuition and housing fees and are recorded net of an allowance for doubtful accounts. In certain situations, the College has allowed students to repay their tuition fees over a period extending beyond one year from the date of the financial statements. Such amounts are presented as notes receivable in the accompanying statements of financial position. The allowance is based on historical experience and management’s evaluation of receivables at year end.

**Property and equipment** – Property and equipment is recorded at cost and is generally depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the term of the lease or the useful life of the asset. The estimated useful lives are as follows:

Computers and equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	7 years

The College reviews property and equipment for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset’s carrying value over the fair value of the asset. There was no impairment of property and equipment during the years ended December 31, 2014 and 2013.

**Deferred rent** – Rent expense on operating leases with scheduled or minimum rent increases is expensed on the straight-line basis over the lease terms. Deferred rent represents the excess of rent charged to expense over rent payable under the lease agreements due to the amortization of rent holidays and lease incentives (i.e. tenant improvements reimbursements). As of December 31, 2014 and 2013 deferred rent was \$32,000 and \$0, respectively.

**SAINT KATHERINE COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

**Income taxes** – The College qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code, and section 23701(d) of the California Revenue and Taxation Code. Therefore, no provision for federal or California income taxes is included in the accompanying financial statements. Although management believes that it has not taken any significant uncertain tax positions, the College remains subject to income tax examinations for all years since inception.

**Net assets categories** – All financial transactions have been reported by net asset classification according to the presence or absence of donor-imposed stipulations. The financial statements report amounts by classification of net assets as follows:

**Unrestricted net assets** – Unrestricted net assets are currently available at the discretion of the board of trustees for use in the College's operations and those resources invested in land, buildings, and equipment.

**Temporarily restricted net assets** – Temporarily restricted net assets are those which are stipulated by donors for specific operating purposes or for the acquisition of property and equipment. This classification also includes the College's future interest in split-interest agreements, which are restricted by expiration of a time restriction and unexpended endowment investment returns. At December 31, 2014 and 2013, there were no temporarily restricted net assets held by the College.

**Permanently restricted net assets** – Permanently restricted net assets are those for which the principal is stipulated by donors to be invested in perpetuity. The income on the funds is used as specified by the donor and is recorded as temporarily restricted until appropriated for expenditure. At December 31, 2014 and 2013, there were no permanently restricted net assets held by the College.

**Revenue and support** – Student tuition, housing, and other fees are recognized during the year in which the related academic services are delivered. Payments received in advance of the semester in which the College performs the academic service are presented as unearned tuition in the accompanying statements of financial position.

**Contributions** – Contributions are recognized as revenue in the period received. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose 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. During the years ended December 2014 and 2013, none of the contributions received by the College were subject to restrictions.

# SAINT KATHERINE COLLEGE

## NOTES TO FINANCIAL STATEMENTS

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### Note 1 – Organization and Summary of Significant Accounting Policies (continued)

**Donated services** – The College receives a moderate amount of services donated by volunteers and others interested in the College’s mission each year. This contribution of services is not recognized in the financial statements unless the services create or enhance nonfinancial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services by volunteers for the years ended December 31, 2014 and 2013 did not meet the aforementioned requirements, and as such, no amounts were recognized in the financial statements for volunteer time.

**Advertising** – The College expenses advertising costs as incurred. Advertising expense was \$17,460 and \$12,122 during the years ended December 31, 2014 and 2013, respectively.

**Functional allocation of expenses** – The College allocates its expenses on a functional basis among its various programs, activities, and supporting services. Expenditures which can be identified with a specific program or support service are recorded directly, according to their natural expenditure classification. Costs that are common to more than one function are allocated among the program and supporting services on the basis of payroll and related records, space utilized, and estimates made by management.

**Subsequent events** – Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are issued. The College recognizes in the financial statements the effects of all significant subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The College’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before the financial statements are available to be issued.

The College has evaluated subsequent events through August 21, 2015, which is the date the financial statements were available to be issued.

### Note 2 – Student Receivables

Accounts receivable represents amounts due from enrolled students for the current year.

Notes receivable represent institutional loans due from both current and former students. The following is a summary of student accounts and notes receivable:

	<u>2014</u>	<u>2013</u>
Student accounts receivable	\$ 21,085	\$ 9,903
Student notes receivable	\$ 349,301	\$ 125,848
Allowance for doubtful accounts	(179,421)	(63,408)
Student accounts and notes receivable, net	<u>\$ 169,880</u>	<u>\$ 62,440</u>

**SAINT KATHERINE COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 3 –Property and Equipment**

Property and equipment consists of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 139,819	\$ -
Furniture and fixtures	75,895	40,710
Computer equipment	<u>38,894</u>	<u>38,894</u>
	254,608	79,604
Less accumulated depreciation	<u>(55,451)</u>	<u>(27,325)</u>
Property and equipment, net	<u>\$ 199,157</u>	<u>\$ 52,279</u>

**Note 4 – Student Tuition and Housing Fees**

Student tuition and fees consists of the following for the years ended December 31:

Student tuition and fees	\$ 1,419,641	\$ 1,351,541
Less college support and discounts	<u>(572,929)</u>	<u>(637,134)</u>
Student tuition and fees, net	<u>\$ 846,712</u>	<u>\$ 714,407</u>

Student housing fees consists of the following for the years ended December 31:

Housing fees	\$ 330,075	\$ 259,013
Less discounts	<u>-</u>	<u>(22,497)</u>
Housing fees, net	<u>\$ 330,075</u>	<u>\$ 236,516</u>

**Note 5 – Related-party Transactions and Concentrations**

The majority of the College's contributions are derived from related parties, including the president and members of its Board of Trustees. One related-party donor made up 78 and 86 percent of the College's total donor contributions during 2014 and 2013, respectively. In addition, the College leased facilities from a related party during 2014 and 2013 (Note 6).

The College has a \$3,000,000 and a \$5,000,000 unsecured line of credit with two members of its Board of Trustees. These agreements have no expiration date. There were no balances due as of December 31, 2014 and 2013.

## SAINT KATHERINE COLLEGE NOTES TO FINANCIAL STATEMENTS

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### Note 6 – Lease Commitments

During the years ended December 31, 2014 and 2013, the College leased its administrative offices and instructional and athletic facilities from various parties. During 2014, new lease agreements were signed with third parties for the administrative offices and facilities which expire at various dates through 2021. During 2013, lease agreements with a related party were terminated. Lease expense during 2014 and 2013 was \$516,946 and \$379,493, respectively. The College's lease commitments pursuant to these new lease agreements are as follows:

Years ending December 31,		
2015	\$	258,547
2016		124,404
2017		104,004
2018		104,004
2019		104,004
Thereafter		<u>156,006</u>
	\$	<u><u>850,969</u></u>