



REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS

UNIVERSITY OF SAINT KATHERINE

December 31, 2017 and 2016

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Report of Independent Auditors

To the Board of Directors
University of Saint Katherine

Report on the Financial Statements

We have audited the accompanying financial statements of University of Saint Katherine, which comprise the statements of financial position as of December 31, 2017 and 2016, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Saint Katherine as of December 31, 2017 and 2016, 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.

Moss Adams LLP

San Diego, California

April 6, 2018

University of Saint Katherine
Statements of Financial Position

ASSETS		December 31,	
		2017	2016
Current Assets			
Cash		\$ 21,216	\$ 32,575
Pledge receivable (Note 1)		812,000	-
Student accounts receivable, net (Note 2)		154,344	224,745
Prepaid expenses and other assets (Note 1)		84,965	35,919
Total current assets		1,072,525	293,239
Student Notes Receivable, net (Note 2)		475,180	257,507
Property and Equipment, net (Note 3)		132,069	130,271
Security Deposits		19,770	2,198
Total assets		\$ 1,699,544	\$ 683,215
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable and accrued expenses		\$ 305,731	\$ 138,294
Unearned tuition		40,224	80,570
Note payable, current portion (Note 7)		127,951	-
Total current liabilities		473,906	218,864
Long-term Liabilities			
Line of credit (Note 7)		250,000	-
Note payable, net of current portion (Note 7)		47,411	-
Total long-term liabilities		297,411	-
Commitments and Contingencies (Note 6)			
Net Assets (Note 8)			
Unrestricted		928,227	460,430
Temporarily restricted		-	3,921
Total net assets		928,227	464,351
Total liabilities and net assets		\$ 1,699,544	\$ 683,215

University of Saint Katherine

Statements of Activities

	Years Ended December 31,					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Student tuition and fees, net (Note 4)	\$ 1,783,154	\$ -	\$ 1,783,154	\$ 647,903	\$ -	\$ 647,903
Housing	389,182	-	389,182	162,822	-	162,822
Income from athletics	8,819	-	8,819	1,783	-	1,783
Other income (expense), net	(1,640)	-	(1,640)	1,031	-	1,031
Net revenue	<u>2,179,515</u>	<u>-</u>	<u>2,179,515</u>	<u>813,539</u>	<u>-</u>	<u>813,539</u>
SUPPORT						
Contributions	1,413,876	101,911	1,515,787	1,267,966	64,700	1,332,666
Fundraising events	36,194	-	36,194	15,775	-	15,775
Direct event costs	(9,011)	-	(9,011)	(71)	-	(71)
Net assets released from restriction	105,832	(105,832)	-	60,779	(60,779)	-
Net support	<u>1,546,891</u>	<u>(3,921)</u>	<u>1,542,970</u>	<u>1,344,449</u>	<u>3,921</u>	<u>1,348,370</u>
Total revenue and support, net	<u>3,726,406</u>	<u>(3,921)</u>	<u>3,722,485</u>	<u>2,157,988</u>	<u>3,921</u>	<u>2,161,909</u>
EXPENSES						
Administration	1,133,945	-	1,133,945	941,520	-	941,520
Faculty and instruction	649,227	-	649,227	463,505	-	463,505
Athletics and student affairs	1,021,515	-	1,021,515	460,297	-	460,297
Housing	330,709	-	330,709	157,606	-	157,606
Global Leadership Institute	122,416	-	122,416	48,994	-	48,994
Fundraising	797	-	797	9,484	-	9,484
Total operating expenses	<u>3,258,609</u>	<u>-</u>	<u>3,258,609</u>	<u>2,081,406</u>	<u>-</u>	<u>2,081,406</u>
CHANGE IN NET ASSETS	467,797	(3,921)	463,876	76,582	3,921	80,503
NET ASSETS						
Beginning of year	<u>460,430</u>	<u>3,921</u>	<u>464,351</u>	<u>383,848</u>	<u>-</u>	<u>383,848</u>
End of year	<u>\$ 928,227</u>	<u>\$ -</u>	<u>\$ 928,227</u>	<u>\$ 460,430</u>	<u>\$ 3,921</u>	<u>\$ 464,351</u>

University of Saint Katherine Statements of Cash Flows

	Years Ended December 31,	
	2017	2016
OPERATING ACTIVITIES		
Changes in net assets	\$ 463,876	\$ 80,503
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Bad debt expense	138,481	58,246
Depreciation expense	32,874	38,878
Forgiveness of debt	(542,000)	-
Changes in operating assets and liabilities:		
Pledges receivable	(812,000)	-
Student accounts and loans receivable	(285,753)	(339,071)
Prepaid expenses and other assets	(49,046)	15,220
Security deposits	(17,572)	1,402
Accounts payable and accrued expenses	167,437	76,711
Unearned tuition	(40,346)	63,163
Deferred rent	-	(27,047)
Net cash used in operating activities	(944,049)	(31,995)
INVESTING ACTIVITIES		
Acquisition of property and equipment	(34,672)	(2,455)
Net cash used in investing activities	(34,672)	(2,455)
FINANCING ACTIVITIES		
Net borrowings on lines of credit	792,000	-
Proceeds from related-party note payable	250,000	-
Repayments on related-party note payable	(74,638)	-
Net cash provided by financing activities	967,362	-
NET DECREASE IN CASH	(11,359)	(34,450)
CASH		
Beginning of year	32,575	67,025
End of year	\$ 21,216	\$ 32,575
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES		
Interest paid	\$ 13,575	\$ -

University of Saint Katherine

Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

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

The University is accredited through the Western Association of Schools and Colleges (“WASC”) Senior College and University Commission. The University is approved and licensed by the California Bureau for Private Postsecondary Education to award Bachelor of Arts and Bachelor of Science degrees. The University derives its revenues principally from student tuition as well as private donations and contributions. The University participates in Title IV Financial Aid Programs. Additional support is generated by the University through fees associated with residential facilities, technology and student life services, administrative-type fees, as well as fundraising events. The University spends these resources to meet its instructional and educational mission.

Management’s plan – During 2017, the University has relied on donations to cover cash flow needs. The University has not had adequate cash flow from tuition and fees to cover expenses every year, and has relied on donors to cover expenses as needed. The University has developed an enrollment strategy with the goal of having tuition and fees cover operating expenses starting in the 2018-2019 academic year. According to the University’s management, 2019 is projected to be the first full fiscal year that sees tuition, fees and other income cover all operating expenses, and any income or donations in excess of operating expenses will be used to execute the measured growth strategy outlined in the University’s Strategic Plan.

Income taxes – The University 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. Management believes that it has not taken any significant uncertain tax positions and does not have any tax obligations at December 31, 2017 and 2016.

Basis of presentation – The financial statements of the University 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 America (“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.

Concentrations of credit risk – The University holds cash deposits at financial institutions which, at times, may exceed Federal Deposit Insurance Corporation (“FDIC”) limits. The University has not experienced any losses in such accounts.

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

Pledge receivable – Unconditional promises-to-give expected to be collected in future years are recorded at fair value when the promise is made based on a discounted cash flow model. In future years, the discounts to present value are computed using risk-free rates established in the year in which those promises are received. Amortization of the discounts is included in contributions. The pledge receivable as of December 31, 2017 is expected to be collected in 2018 and accordingly, no discount was recorded.

Student accounts receivable and notes receivable – Student accounts receivable are for tuition and housing fees. In certain situations, the University has allowed students to repay their tuition fees over a period extending beyond one year. Such amounts represent institutional loans and are presented as notes receivable in the accompanying statements of financial position. The loans are unsecured and generally payable over 10 years. Student accounts receivable and notes receivable are recorded net of an allowance for doubtful accounts. The allowance is based on historical experience and management's evaluation of receivables at year end.

Property and equipment – Property and equipment in excess of \$500 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. Expenditures for repairs and maintenance are expensed when incurred. The estimated useful lives are as follows:

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

The University 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, 2017 and 2016.

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 University's operations and those resources invested in property and equipment.

Temporarily restricted net assets – Temporarily restricted net assets are those which are stipulated by donors for specific operating purposes or restricted by time. At December 31, 2017 and 2016, there were \$0 and \$3,921, respectively, of temporarily restricted net assets held by the University.

University of Saint Katherine

Notes to Financial Statements

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

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, 2017 and 2016, there were no permanently restricted net assets held by the University.

Tuition and fees – Student tuition and fees are recorded as revenue using the proportional performance method of revenue recognition in the year during in which the academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue and are presented as unearned tuition in the statements of financial position. Collectability of student accounts is reviewed both individually and in the aggregate.

Housing and income from athletics – Housing and income from athletics is recognized in the year the housing was provided or the athletic event occurred. Amounts received in advance are reported as deferred revenue. The deferred revenue for housing and income from athletics was not material as of December 31, 2017 and 2016.

Contributions – Contributions are recognized as revenue when received or unconditionally pledged. Contributions 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 statements of activities as net assets released from restrictions.

Donated services – The University receives a moderate amount of services donated by volunteers and others interested in the University's mission each year. These contributions of service are 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, 2017 and 2016 did not meet the aforementioned requirements, and as such, no amounts were recognized in the financial statements for volunteer time.

Advertising – The University expenses advertising costs as incurred. Advertising expense was \$62,659 and \$19,980 and during the years ended December 31, 2017 and 2016, respectively.

Functional allocation of expenses – The University allocates its expenses on a functional basis among its various programs, activities, and supporting services. Expenditures which can be identified with a specific function 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 function and supporting services on the basis of payroll and related records, space utilized, and estimates made by management.

University of Saint Katherine
Notes to Financial Statements

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

Recently issued accounting standards – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement for Not-for-Profit Entities*. This guidance revises the not-for-profit reporting model. The guidance streamlines and clarifies net asset reporting, requires additional disclosures about liquidity and the availability of assets, and imposes new reporting requirements related to expenses. The guidance is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact this will have on the University's future financial statements.

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 as of December 31:

	2017	2016
Student accounts receivable	\$ 154,344	\$ 224,745
Student notes receivable	\$ 613,774	\$ 468,717
Less allowance for doubtful accounts	(138,594)	(211,210)
Student notes receivable, net	\$ 475,180	\$ 257,507

Note 3 – Property and Equipment

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

	2017	2016
Leasehold improvements	\$ 163,465	\$ 150,315
Furniture and fixtures	96,357	74,835
Computer equipment	38,894	38,894
	298,716	264,044
Less accumulated depreciation	(166,647)	(133,773)
Property and equipment, net	\$ 132,069	\$ 130,271

University of Saint Katherine

Notes to Financial Statements

Note 4 – Student Tuition and Fees

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

	<u>2017</u>	<u>2016</u>
Student tuition and fees	\$ 2,824,555	\$ 1,405,609
Less college support and discounts	<u>(1,041,401)</u>	<u>(757,706)</u>
Student tuition and fees, net	<u>\$ 1,783,154</u>	<u>\$ 647,903</u>

Note 5 – Related-Party Transactions and Concentrations

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. For senior management, the University requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the University. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the University. The University has a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees can participate in any decision in which he or she (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the University and in accordance with applicable conflict of interest laws. No such associations are considered to be significant conflicts (See Note 6 and 7).

The majority of the University's contributions are derived from related parties, including the president and members of its Board of Trustees (the "Board"). The President contributed 89 percent and 73 percent of the University's total donor contributions during 2017 and 2016, respectively. At December 31, 2017, \$812,000 of the total contributions received from the President in 2017 is recorded as a pledge receivable. Another Board member contributed 14 percent of the contributions during 2016.

Note 6 – Commitments and Contingencies

Lease commitments – The University leases its administrative offices and instructional and student housing facilities from various parties, which expire at various dates through 2025. Lease expense during December 31, 2017 and 2016 was \$478,769 and \$264,928, respectively. In 2016, the building that holds the University’s administrative offices and some instructional facilities was purchased by a member of the Board. The University entered into a new lease with the Board member which requires the University to pay monthly rent of \$9,195 through expiration in 2025. Total lease expense paid to the Board member during the years ended December 31, 2017 and 2016 was \$110,340 and \$36,750, respectively. The University’s lease commitments pursuant to these lease agreements are as follows:

Years Ending December 31,	
2018	\$ 292,585
2019	110,340
2020	110,340
2021	110,340
2022	110,340
Thereafter	<u>266,655</u>
Total	<u>\$ 1,000,600</u>

Legal – The University is party to certain legal actions arising in the ordinary course of business. In the opinion of management, liabilities, if any, under these actions will not have a material impact on its financial position.

Note 7 – Lines of Credit and Note Payable

The University has access to a \$3,000,000 unsecured line of credit from its president. The line of credit is available for ten years interest free. In January 2017, the University drew \$542,000 on the line of credit. In December 2017, the loan was forgiven. The forgiveness was recorded as a contribution in the statement of activities for the year ended December 31, 2017. There were no amounts drawn against the balance on the line of credit as of December 31, 2017 and 2016.

A member of the Board has provided a \$5,000,000 line of credit to the University to assist with operating cash flows. The line of credit is available interest free. No amounts have been drawn on the line of credit as of December 31, 2017 and 2016.

In March 2017, the University entered into a \$250,000 line of credit with a bank, expiring March 2018 and bearing interest at a variable rate. The line of credit is guaranteed by two members of the Board. As of December 31, 2017, the balance on the line of credit was \$250,000. In March 2018, the line of credit was extended with a revised maturity date of March 2020. The accompanying statement of financial position has been updated to reflect the revised maturity date.

University of Saint Katherine

Notes to Financial Statements

Note 7 – Lines of Credit and Note Payable (continued)

In May 2017, the University entered into a \$250,000 note payable with a Board member, maturing in June 2019. Interest accrues annually at 2.25%, with payments due monthly at \$10,663. The balance on the loan as of December 31, 2017 was \$175,362 and is expected to be repaid as follows: \$127,951 in 2018 and \$47,411 in 2019.

Note 8 – Temporarily Restricted Net Assets

At December 31, 2017, there were no temporarily restricted net assets. Net assets totaling \$105,832 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the year ended December 31, 2017.

At December 31, 2016, there were temporarily restricted net assets totaling \$3,921 available for the Global Leadership Summit. Net assets totaling \$60,779 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the year ended December 31, 2016.

Note 9 – 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 University 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 University'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 University has evaluated subsequent events through April 6, 2018, which is the date the financial statements were available to be issued.

Starting in 2018, the University is no longer offering student housing. The University has lease agreements for student housing that expire throughout 2018 which will not be renewed. The University will continue to assist students in their search for housing on an as-needed basis.

In March 2018, the University's bank line of credit was extended until March 2020. See Note 7.