



Report of Independent Auditors and
Financial Statements for

Saint Katherine College

December 31, 2016 and 2015

MOSS ADAMS LLP

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 statements of financial position as of December 31, 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.

Auditor's Responsibility

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

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

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



Opinion

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2017 on our consideration of the Saint Katherine College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Saint Katherine College's internal control over financial reporting and compliance.

Moss Adams LLP

San Diego, California
June 30, 2017

SAINT KATHERINE COLLEGE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	December 31,	
	2016	2015
ASSETS		
Current Assets		
Cash	\$ 32,575	\$ 67,025
Student accounts receivable, net (Note 2)	224,745	24,503
Prepaid expenses and other assets	35,919	51,139
Total current assets	<u>293,239</u>	<u>142,667</u>
Student Notes Receivable, net (Note 2)	257,507	176,924
Property and Equipment, net (Note 3)	130,271	166,694
Security Deposits	2,198	3,600
Total assets	<u>\$ 683,215</u>	<u>\$ 489,885</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 138,294	\$ 61,583
Unearned tuition	80,570	17,407
Total current liabilities	<u>218,864</u>	<u>78,990</u>
Deferred Rent	-	27,047
Total liabilities	<u>218,864</u>	<u>106,037</u>
Commitments and Contingencies (Note 6)		
Net Assets		
Unrestricted	460,430	383,848
Temporarily restricted	3,921	-
Total net assets	<u>464,351</u>	<u>383,848</u>
Total liabilities and net assets	<u>\$ 683,215</u>	<u>\$ 489,885</u>

SAINT KATHERINE COLLEGE
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Years Ended December 31,					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Student tuition and fees, net (Note 4)	\$ 647,903	\$ -	\$ 647,903	\$ 497,861	\$ -	\$ 497,861
Housing	162,822	-	162,822	134,633	-	134,633
Income from athletics	1,783	-	1,783	22,187	-	22,187
Other income	1,031	-	1,031	396	-	396
Net revenue	<u>813,539</u>	<u>-</u>	<u>813,539</u>	<u>655,077</u>	<u>-</u>	<u>655,077</u>
SUPPORT						
Contributions	1,267,966	64,700	1,332,666	1,334,753	-	1,334,753
Fundraising events	15,775	-	15,775	44,519	-	44,519
Direct event costs	(71)	-	(71)	(3,251)	-	(3,251)
Net assets released from restriction	60,779	(60,779)	-	-	-	-
Net support	<u>1,344,449</u>	<u>3,921</u>	<u>1,348,370</u>	<u>1,376,021</u>	<u>-</u>	<u>1,376,021</u>
Total revenue and support, net	<u>2,157,988</u>	<u>3,921</u>	<u>2,161,909</u>	<u>2,031,098</u>	<u>-</u>	<u>2,031,098</u>
EXPENSES						
Administration	941,520	-	941,520	772,439	-	772,439
Faculty and instruction	463,505	-	463,505	449,176	-	449,176
Athletics and student affairs	460,297	-	460,297	378,988	-	378,988
Housing	157,606	-	157,606	173,745	-	173,745
Global Leadership Institute	48,994	-	48,994	-	-	-
Fundraising	9,484	-	9,484	65,516	-	65,516
Total operating expenses	<u>2,081,406</u>	<u>-</u>	<u>2,081,406</u>	<u>1,839,864</u>	<u>-</u>	<u>1,839,864</u>
CHANGE IN NET ASSETS	76,582	3,921	80,503	191,234	-	191,234
NET ASSETS						
Beginning of year	<u>383,848</u>	<u>-</u>	<u>383,848</u>	<u>192,614</u>	<u>-</u>	<u>192,614</u>
End of year	<u>\$ 460,430</u>	<u>\$ 3,921</u>	<u>\$ 464,351</u>	<u>\$ 383,848</u>	<u>\$ -</u>	<u>\$ 383,848</u>

SAINT KATHERINE COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Years Ended December 31,	
	2016	2015
OPERATING ACTIVITIES		
Changes in net assets	\$ 80,503	\$ 191,234
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Bad debt expense	58,246	81,450
Depreciation expense	38,878	39,444
Changes in operating assets and liabilities:		
Student accounts receivable	(339,071)	(91,912)
Prepaid expenses and other current assets	15,220	(30,072)
Security deposits	1,402	2,466
Accounts payable and accrued expenses	76,711	(45,664)
Unearned tuition	63,163	(84,383)
Deferred rent	(27,047)	(4,953)
Net cash (used in) provided by operating activities	<u>(31,995)</u>	<u>57,610</u>
INVESTING ACTIVITIES		
Acquisition of property and equipment	(2,455)	(6,981)
Net cash used in investing activities	<u>(2,455)</u>	<u>(6,981)</u>
NET (DECREASE) INCREASE IN CASH	(34,450)	50,629
CASH		
Beginning of year	<u>67,025</u>	<u>16,396</u>
End of year	<u>\$ 32,575</u>	<u>\$ 67,025</u>

SAINT KATHERINE COLLEGE

NOTES TO FINANCIAL STATEMENTS

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 accredited through the Western Association of Schools and Colleges Senior College and University Commission. 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. The College participates in Title IV Financial Aid Programs. 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 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.

Student accounts receivable and notes receivable – Student accounts receivable are for tuition and housing fees. In certain situations, the College 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

SAINT KATHERINE COLLEGE
NOTES TO FINANCIAL STATEMENTS

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

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, 2016 and 2015.

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). During the year ended December 31, 2016, the lease which previously had deferred rent was cancelled.

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. Management believes that it has not taken any significant uncertain tax positions and does not have any tax obligations at December 31, 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 College'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, 2016 and 2015, there were \$3,921 and \$0, respectively, of 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, 2016 and 2015, there were no permanently restricted net assets held by the College.

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.

SAINT KATHERINE COLLEGE

NOTES TO FINANCIAL STATEMENTS

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

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. Deferred housing and income revenue was \$14,432 and \$0 as of December 31, 2016 and 2015, respectively.

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 College receives a moderate amount of services donated by volunteers and others interested in the College’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, 2016 and 2015 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 \$19,980 and \$11,096 during the years ended December 31, 2016 and 2015, 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 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.

Recently adopted accounting pronouncements – In August 2014, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. ASU 2014-15 defines management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. The guidance in ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016. The College adopted this ASU in 2016 and the impact on the financial disclosures as a result of the adoption of ASU 2014-15 was not material.

SAINT KATHERINE COLLEGE
NOTES TO FINANCIAL STATEMENTS

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

Reclassifications – Prior period accounts have been reclassified to conform to the current period presentation, which have no effect on net assets or change in net assets.

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 June 30, 2017, which is the date the financial statements were available to be issued. (See Note 7).

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:

	<u>2016</u>	<u>2015</u>
Student accounts receivable	<u>\$ 224,745</u>	<u>\$ 24,503</u>
Student notes receivable	\$ 468,717	\$ 429,381
Less allowance for doubtful accounts	<u>(211,210)</u>	<u>(252,457)</u>
Student notes receivable, net	<u>\$ 257,507</u>	<u>\$ 176,924</u>

SAINT KATHERINE COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 3 – Property and Equipment

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

Leasehold improvements	\$ 150,315	\$ 147,860
Furniture and fixtures	74,835	74,835
Computer equipment	<u>38,894</u>	<u>38,894</u>
	264,044	261,589
Less accumulated depreciation	<u>(133,773)</u>	<u>(94,895)</u>
Property and equipment, net	<u>\$ 130,271</u>	<u>\$ 166,694</u>

Note 4 – Student Tuition and Fees

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

	<u>2016</u>	<u>2015</u>
Student tuition and fees	\$ 1,405,609	\$ 931,972
Less college support and discounts	<u>(757,706)</u>	<u>(434,111)</u>
Student tuition and fees, net	<u>\$ 647,903</u>	<u>\$ 497,861</u>

Note 5 – Related-Party Transactions and Concentrations

Members of the College’s Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the College. For senior management, the College requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the College. 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 College. The College 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 College and in accordance with applicable conflict of interest laws. No such associations are considered to be significant conflicts. (See Note 6).

SAINT KATHERINE COLLEGE
NOTES TO FINANCIAL STATEMENTS

Note 5 – Related-Party Transactions and Concentrations (continued)

The majority of the College’s contributions are derived from related parties, including the president and members of its Board of Trustees (the “Board”). One related-party donor contributed 73 and 72 percent of the College’s total donor contributions during 2016 and 2015, respectively. Another Board member contributed 14 and 22 percent of the contributions during 2016 and 2015, respectively.

The College has access to a \$3,000,000 unsecured line of credit from its president. No amounts have been drawn on the line of credit as of December 31, 2016. The line of credit is available for ten years interest free. In addition, a member of the Board of Trustees has provided a \$5,000,000 line of credit to the College 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, 2016.

Note 6 – Commitments and Contingencies

Lease commitments – The College 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, 2016 and 2015 was \$264,928 and \$281,401, respectively. During the year ended December 31, 2016, the building that holds the College’s administrative offices and some instructional facilities was purchased by a member of the Board. The College entered into a new lease with the Board member which requires the College to pay monthly rent of \$9,195 through expiration in 2025. Total lease expense paid to the Board member during the year ended December 31, 2016 was \$36,750. The College’s lease commitments pursuant to these lease agreements are as follows:

Years ending December 31,		
2017	\$	244,638
2018		110,340
2019		110,340
2020		110,340
2021		110,340
Thereafter		<u>376,995</u>
Total	\$	<u><u>1,062,993</u></u>

Legal – The College 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.

SAINT KATHERINE COLLEGE

NOTES TO FINANCIAL STATEMENTS

Note 7 - Line of Credit

In March 2017, the College 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 of Trustees. No amounts have been drawn on this line of credit.

Note 8 - Temporarily Restricted Net Assets

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. There were no temporarily restricted net assets during the year ended December 31, 2015.

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Trustees
Saint Katherine College

We have audited, in accordance with the 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, the financial statements of the Saint Katherine College, which comprise the statement of financial position as of December 31, 2016, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal controls, described in the accompanying schedule of findings and responses as items 2016-001, 2016-002, and 2016-003 that we consider to be material weaknesses.

**Compliance and Other Matters**

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

Saint Katherine College's Responses to Findings

Saint Katherine College's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Saint Katherine College's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

San Diego, California
June 30, 2017

**SAINT KATHERINE COLLEGE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2016**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- | | | | | |
|---|-------------------------------------|-----|-------------------------------------|---------------|
| • Material weakness(es) identified? | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No |
| • Significant deficiency(ies) identified? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | None reported |
| • Noncompliance material to financial statements noted? | <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No |

Section II – Financial Statement Findings

2016-001: Segregation of Duties; Material Weakness

Criteria – A strong system of internal controls includes adequate segregation of duties. Segregation of duties include methods and procedures that require the separation of responsibilities related to the custody of assets from accounting personnel, authorization of transactions from custody of assets and operational responsibilities from record-keeping responsibilities.

Condition – Many of the procedures currently in place for processing and posting transactions into QuickBooks are performed solely by the Chief Financial Officer (“CFO”). The CFO has check signing authority, online access to the bank account and the ability to record transactions into the financial statements. The CFO is also responsible for approving new vendors.

Cause – The College has a very limited number of employees and has been unable to allocate incompatible duties.

Effect – Errors (intentional and unintentional) could go undetected.

Recommendation – We suggest that management and the Board of Trustees discuss and implement policies and procedures to allow for segregation of these duties.

The following are examples of segregation of duties that could be implemented by the College:

- Check signing capability should be limited to management outside of accounting department.
- Bank reconciliation should be prepared by someone other than the CFO and then subsequently reviewed by the CFO.
- Remove the CFO from having access to QuickBooks or allocate conflicting duties to others.

**SAINT KATHERINE COLLEGE
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2016**

Section II – Financial Statement Findings (continued)

- The CFO should be reviewing the bank deposits for accuracy, not preparing the deposit.
- Review of the adjusting entries should be performed by someone other than the CFO or the individual preparing the journal, which is then initialed and dated by the reviewer.

Management’s response – Segregation of duties has been discussed with the Audit Committee and the Board of Trustees. The constraints of a limited number of employees still exist. In response to the audit recommendations, a part-time bookkeeper and part-time administrative assistant were hired in September 2016. The timing for hiring was delayed until after fall tuition payments were received, therefore confirming there would be funding available in the budget for the additional personnel. The new hires helped with the segregation of duties. Here are the results from the items listed above:

- The CFO and President continue to have check signing capability. Only the bookkeeper and the administrative assistant have access to the physical checks. The administrative assistant mails the checks.
- Starting September 1, 2016, the bookkeeper prepares all bank reconciliations, which are then reviewed by the CFO.
- It has not been practical for the CFO’s access to be removed from QuickBooks. Conflicting duties are being transitioned to the bookkeeper.
- The administrative assistant prepares deposits. The President reviews deposits for accuracy.
- Adjusting entries are still performed by the CFO. The oversight is performed by the President in conjunction with his review over management reports and discussions with the audit committee. In 2016, adjusting entries have continued to be a problem. Steps are being taken to address this.

To further address the Segregation of Duties recommendation, the College is developing a new position within the Finance Department. The reduction of both a full-time faculty position and the Dean of the College position will allow for this to be a full-time position. The employee will have QuickBooks or similar accounting software experience. This position will take over financial aid, accounts receivable and accounts payable functions from the CFO. Due to the cyclical nature of cash flow, this position will be hired in September 2017 after Title IV funds for the Fall 2017 Academic Semester are disbursed. The College finds it prudent to confirm that students who have committed to the College matriculate.

Segregation of duties and Title IV: The College has worked with the Department of Education to ensure the appropriate segregation of duties for Title IV processing is in place. Duties are segregated between the Registrar, the CFO, and Weber and Associates, a third-party servicer. The expertise of Weber and Associates has proven invaluable considering the staffing limitations of the College.

**SAINT KATHERINE COLLEGE
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2016**

Section II – Financial Statement Findings (continued)

2016-002: Accounting Policies and Procedures; Material Weakness

Criteria – All accounts should be reconciled on a monthly basis. The reconciliation should be reviewed and approved by a person with adequate accounting knowledge.

Financial statements should be reviewed to ensure they capture all liabilities required to be recorded under GAAP.

Condition – The College does not have a proper process in place to reconcile student activity from its student database to its accounting software. There were instances in which supporting documentation or award letters for students who received tuition discounts, scholarships or work study were not available.

The College did not properly reconcile its cash accounts to the general ledger, did not evaluate the allowance for doubtful accounts throughout the year and did not properly record payroll journals on a monthly basis and reconcile the account to the general ledger.

The College did not track or record accrued paid time off to employees eligible to receive this benefit.

Cause – The College does not have adequate staffing to perform accounting reconciliations and necessary analysis on a monthly basis.

Effect – Financial statements could include errors.

Recommendation – We suggest that management implement policies and procedures to reconcile all accounts on a monthly basis, including reconciling the student activity from student database to the accounting software, and timely reconciling of all bank accounts. The reconciliations should include support from each system and include the date the reconciliation was performed and reviewed and initials of the person preparing and reconciling the account. Payroll transactions should be recorded each month and reviewed to ensure allocations to the appropriate general ledger accounts. Regarding the recognition of paid time off, we recommend the College develop a process by which they can track the paid time off hours accrued and used to determine the monthly accrual at month end. The College should consider using month-end checklists to ensure all accounts are reconciled and all adjustments are made when preparing monthly financial statements. The month-end process should also include an analysis of the allowance accounts.

**SAINT KATHERINE COLLEGE
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2016**

Section II – Financial Statement Findings (continued)

Management’s response – At the time of this recommendation during the prior year audit in March 2016, student accounts had already been transitioned to the accounting software, QuickBooks Online (“QBO”). This addressed the issue of reconciling the student activity from a separate student database to the accounting software. However, QBO is not tailored to higher education. The decision was made to transition all student accounts to a new student information system, Populi, in the summer of 2016. This allows invoicing to be synchronized with registration and enrollment. However, the transition was delayed due to Title IV financial aid. It was recommended by Populi that the College wait until Title IV approval to transition the billing statements to Populi. The transition was completed in March 2017. Moving forward, all student account ledgers and billing statements will be in Populi, with only the necessary information input into QBO for financial reporting.

Bank reconciliations on a monthly basis were started in September 2016. All reconciliations are done electronically in QBO and are stamped with the name of the employee who performs the reconciliation. Student account reconciliations were not necessary in 2016 because the account statements were only in QBO. A part-time bookkeeper, while helpful, has not been adequate to perform timely reconciliations. This is being addressed by the new position described in the response to 2016-001.

The policy for allowance accounts is as follows: All balances outstanding for less than 12 months are considered accounts receivable. There is no allowance for these accounts until they become long-term notes after 12 months. With Title IV approval, the College has greatly reduced the amount of long term notes. The College no longer offers long-term payment plans. Students who are unable to pay their balance from outside sources are only able to enroll under exceptional circumstances.

Employees are now automatically linked to the correct general ledger account through the QBO payroll system. Payroll is reviewed monthly by the President prior to being processed.

The monthly checklist has been imperfect due to the slow timing of the reconciliations being performed. At this growth stage, the focus is on cash at the end of each month. Adjustments are only being done periodically. Management recognizes the need to do monthly adjustments.

2016-003 – Supporting Documentation; Material Weakness

Criteria – All transactions included in the general ledger should be supported by appropriate documentation. Appropriate documentation examples include copies of checks received, approved invoices for disbursements, donor agreements and timecards.

Condition – Certain disbursements were not supported by vendor invoices/receipts and some transactions did not have adequate documentation to support the approval of the expense by the appropriate individual. In addition, the College’s payroll files did not include approved salary rates for a number of employees. There were also certain contributions that were not supported by documented evidence of the donation.

**SAINT KATHERINE COLLEGE
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2016**

Section II – Financial Statement Findings (continued)

Cause – The College does not have adequate staffing to ensure an adequate level of review of appropriate transactions.

Effect – The College could pay inappropriate expenses or incorrectly record contributions and financial statements could include errors. The College exposes itself to the risk that fraud is not prevented or detected in a timely manner.

Recommendation – We recommend management review the current procedures in place to ensure contributions and expenses are not processed without adequate documentation and support. The College should formalize all employee agreements. In addition, we recommend management consider a threshold for documentation for expense reimbursements and develop an expense reimbursement policy.

Management's response – The College has improved in this area since March 2016 when this recommendation was made. Processes are in place for all receipts and check requests to be scanned, uploaded and attached to the transaction in QBO. Many employees have the authorization to use a monthly budget set on the College's American Express Business Account. Standard purchases do not need prior specific authorization, such as travel expenses for athletics, marketing materials, and supplies. Lost receipts are addressed on a case by case basis.

Employee agreements have been updated to reflect changes in salary. Bonuses are typically confirmed by email.

All contributions have been documented. The vast majority are general donations that do not require any sort of additional documentation other than the check/ credit card payment support.

Each department head is given an expense report to confirm that no inappropriate expenses have been paid. The employee handbook addresses inappropriate expenses on the College American Express. In addition to the CFO, who tracks all expenses in QBO, the President also receives detailed expense reports to verify expenses.

**SAINT KATHERINE COLLEGE
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2016**

Section III – Prior Year Findings

2015-001: Segregation of Duties; Material Weakness

Condition – Many of the procedures currently in place for processing and posting transactions into QuickBooks are performed solely by the Chief Financial Officer (“CFO”). The CFO has check signing authority, online access to the bank account and the ability to record transactions into the financial statements.

Recommendation – Management and the Board of Trustees should discuss and implement policies and procedures to allow for segregation of these duties.

Status – See finding 2016-001.

2015-002: Accounting Policies and Procedures; Material Weakness

Condition – Accounts are not consistently reconciled on a monthly basis.

Recommendation – Accounts should be reconciled on a monthly basis. The reconciliations should be reviewed and approved by a person with adequate accounting knowledge.

Status – See finding 2016-002.

2015-003: Supporting Documentation; Material Weakness

Condition – All transactions included in the general ledger are not properly supported by appropriate documentation.

Recommendation – Management should review the current procedures in place to ensure transactions are not processed without adequate documentation and support.

Status – See finding 2016-003.