

SAINT KATHERINE COLLEGE
(A CALIFORNIA PUBLIC BENEFIT CORPORATION)

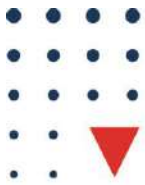
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

**For the Years Ended
December 31, 2013, 2012, and 2011**

SAINT KATHERINE COLLEGE
(A CALIFORNIA PUBLIC BENEFIT CORPORATION)

Table of Contents

INDEPENDENT AUDITORS' REPORT	1 – 2
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 11



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Saint Katherine College
San Marcos, California

Report on the Financial Statements

We have audited the accompanying financial statements of Saint Katherine College (a California Public Benefit Corporation), which comprise the statements of financial position as of December 31, 2013, 2012, and 2011, 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. 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, 2013, 2012, and 2011, 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.

Lavine, Lofgren, Morris & Engdberg, LLP

La Jolla, California
December 30, 2014

SAINT KATHERINE COLLEGE
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Statements of Financial Position
As of December 30, 2013, 2012, and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
ASSETS			
Current assets:			
Cash	\$ 57,765	\$ 39,448	\$ 37,590
Student accounts receivable, net (Note 4)	9,903	12,411	14,635
Prepaid expenses and other current assets	36,521	3,700	5,200
Total current assets	<u>104,189</u>	<u>55,559</u>	<u>57,425</u>
Noncurrent assets:			
Student accounts receivable, net (Note 4)	62,440	32,255	-
Property and equipment, net (Note 2)	52,279	38,435	45,713
Security deposits	6,066	-	-
Total noncurrent assets	<u>120,785</u>	<u>70,690</u>	<u>45,713</u>
Total assets	<u>\$ 224,974</u>	<u>\$ 126,249</u>	<u>\$ 103,138</u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$ 45,079	\$ -	\$ -
Unearned tuition and other revenue	167,953	120,186	-
Total current liabilities	213,032	120,186	-
Commitments (Note 6)			
Unrestricted net assets	11,942	6,063	103,138
Total liabilities and net assets	<u>\$ 224,974</u>	<u>\$ 126,249</u>	<u>\$ 103,138</u>

See accompanying notes to financial statements.

SAINT KATHERINE COLLEGE
(A CALIFORNIA PUBLIC BENEFIT CORPORATION)

Statements of Activities
For the Years Ended December 31, 2013, 2012, and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Support and revenue:			
Student tuition and fees	\$ 714,407	\$ 94,557	\$ 31,038
Housing	236,516	52,163	24,450
Donor contributions	657,031	524,285	580,538
Income from athletics	13,690	-	-
Other income	8,265	-	-
	<u>1,629,909</u>	<u>671,005</u>	<u>636,026</u>
Other gains:			
Fundraising revenue	179,074	130,500	-
Direct event costs	<u>(72,179)</u>	<u>(45,959)</u>	<u>-</u>
Net fundraising	<u>106,895</u>	<u>84,541</u>	<u>-</u>
Total support and revenue	<u>1,736,804</u>	<u>755,546</u>	<u>636,026</u>
Operating expenses (Note 7):			
Faculty and instruction	436,082	341,906	133,898
Housing	265,645	105,319	49,959
Administration	540,918	360,449	337,909
Athletic department	391,739	1,875	-
Fundraising and development	96,541	43,072	27,348
Total operating expenses	<u>1,730,925</u>	<u>852,621</u>	<u>549,114</u>
Change in net assets	5,879	(97,075)	86,912
Unrestricted net assets, beginning of year	<u>6,063</u>	<u>103,138</u>	<u>16,226</u>
Unrestricted net assets, end of year	<u>\$ 11,942</u>	<u>\$ 6,063</u>	<u>\$ 103,138</u>

See accompanying notes to financial statements.

SAINT KATHERINE COLLEGE
(A CALIFORNIA PUBLIC BENEFIT CORPORATION)

Statements of Cash Flows

For the Years Ended December 31, 2013, 2012, and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:			
Change in net assets	\$ 5,879	\$ (97,075)	\$ 86,912
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Bad debt expense	63,408	13,066	13,905
Depreciation expense	11,676	9,548	6,101
Changes in operating assets and liabilities:			
Student accounts receivable	(91,085)	(43,097)	(28,540)
Prepaid expenses and other current assets	(32,821)	1,500	(5,200)
Security deposits	(6,066)	-	-
Accounts payable	45,079	-	-
Unearned tuition and other revenue	47,767	120,186	-
Net cash provided by operating activities	<u>43,837</u>	<u>4,128</u>	<u>73,178</u>
Cash flows from investing activities:			
Acquisition of property and equipment	<u>(25,520)</u>	<u>(2,270)</u>	<u>(35,588)</u>
Net cash used in investing activities	<u>(25,520)</u>	<u>(2,270)</u>	<u>(35,588)</u>
Net increase in cash	18,317	1,858	37,590
Cash, beginning of year	<u>39,448</u>	<u>37,590</u>	<u>-</u>
Cash, end of year	<u>\$ 57,765</u>	<u>\$ 39,448</u>	<u>\$ 37,590</u>

See accompanying notes to financial statements.

SAINT KATHERINE COLLEGE

(A CALIFORNIA PUBLIC BENEFIT CORPORATION)

Notes to Financial Statements **For the Years Ended December 31, 2013, 2012, and 2011**

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Founded in 2010, Saint Katherine College (a California Public Benefit Corporation) (the “College”) 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 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.

Cash and Equivalents

For purposes of the statement of cash flows, the College considers any investments purchased with a maturity of three months or less to be cash equivalents.

Student Accounts Receivable

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 noncurrent on 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 as follows:

Computers and equipment	5 years
Furniture and fixtures	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, 2013, 2012, and 2011.

SAINT KATHERINE COLLEGE

(A CALIFORNIA PUBLIC BENEFIT CORPORATION)

Notes to Financial Statements **For the Years Ended December 31, 2013, 2012, and 2011**

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.

Contributions

Contributions and donations 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 2013, 2012, and 2011, none of the contributions received by the College and none of its net assets as of December 31, 2013, 2012, and 2011 were subject to restriction.

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 and other revenue in the accompanying statements of financial position.

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, 2013, 2012, and 2011 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 \$12,122 and \$1,250 during the years ended December 31, 2013 and 2012, respectively. The College incurred no advertising expenses during 2011.

SAINT KATHERINE COLLEGE
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Notes to Financial Statements
For the Years Ended December 31, 2013, 2012, and 2011

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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

The College has evaluated subsequent events through the date of the independent auditors' report, which is the date these financial statements were available to be issued.

NOTE 2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2013, 2012, and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Furniture and fixtures	\$ 40,710	\$ 20,380	\$ 18,110
Computer equipment	38,894	33,704	33,704
	79,604	54,084	51,814
Less: accumulated depreciation	<u>(27,325)</u>	<u>(15,649)</u>	<u>(6,101)</u>
Property and equipment, net	<u>\$ 52,279</u>	<u>\$ 38,435</u>	<u>\$ 45,713</u>

NOTE 3. STUDENT TUITION AND HOUSING FEES

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Student tuition and fees	\$ 1,351,541	\$ 218,233	\$ 108,323
Less: College support and discounts	<u>(637,134)</u>	<u>(123,676)</u>	<u>(77,285)</u>
Student tuition and fees, net	<u>\$ 714,407</u>	<u>\$ 94,557</u>	<u>\$ 31,038</u>

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Notes to Financial Statements
For the Years Ended December 31, 2013, 2012, and 2011

NOTE 3. STUDENT TUITION AND HOUSING FEES (Continued)

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Housing fees	\$ 259,013	\$ 52,163	\$ 24,450
Less: discounts	<u>(22,497)</u>	<u>-</u>	<u>-</u>
Housing fees, net	<u>\$ 236,516</u>	<u>\$ 52,163</u>	<u>\$ 24,450</u>

NOTE 4. STUDENT ACCOUNTS RECEIVABLE

The following is a summary of student accounts receivable at December 31:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Student accounts receivable	\$ 135,751	\$ 57,732	\$ 28,540
Less: allowance for doubtful accounts	<u>(63,408)</u>	<u>(13,066)</u>	<u>(13,905)</u>
	72,343	44,666	14,635
Less: current portion	<u>(9,903)</u>	<u>(12,411)</u>	<u>(14,635)</u>
Noncurrent portion	<u>\$ 62,440</u>	<u>\$ 32,255</u>	<u>\$ -</u>

NOTE 5. RELATED PARTY TRANSACTIONS AND CONCENTRATIONS

The majority of the College's donor contributions is derived from related party donors including the executive director and members of its board of trustees. One related party donor made up 86%, 66%, and 81% of the College's total donor contributions during 2013, 2012, and 2011, respectively. In addition, the College leased facilities from a related party during 2013, 2012, and 2011 (Note 6).

SAINT KATHERINE COLLEGE
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Notes to Financial Statements
For the Years Ended December 31, 2013, 2012, and 2011

NOTE 6. LEASE COMMITMENTS

During the years ended December 31, 2013, 2012, and 2011, the College leased its administrative offices and instructional and athletic facilities pursuant to related party leases which terminated in 2014. Lease expense during 2013, 2012, and 2011 pursuant to these related party lease agreements was \$379,493, \$250,545, and \$125,045, respectively. During 2014, the College entered into lease agreements with third parties for new facilities which expire at various dates through 2021. The College's lease commitments pursuant to these new lease agreements are as follows:

Years ending December 31,	
2014	\$ 59,152
2015	132,228
2016	126,859
2017	111,993
2018	115,353
Thereafter	<u>303,284</u>
	<u><u>\$ 848,869</u></u>

NOTE 7. FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses are classified on a functional basis with allocation of costs among the functional categories for the years ending December 31:

	2013					
	<u>Before</u> <u>Allocation</u>	<u>Facilities</u>	<u>Depreciation</u>	<u>Information</u> <u>Technology</u>	<u>Other</u>	<u>After</u> <u>Allocation</u>
Faculty and instruction	\$ 335,883	\$ 84,435	\$ 3,503	\$ 4,000	\$ 8,261	\$ 436,082
Housing	251,937	10,205	3,503	-	-	265,645
Administration	408,889	93,135	3,503	12,943	22,448	540,918
Athletic department	343,415	8,227	-	17,867	22,230	391,739
Fundraising and development	53,898	22,409	1,167	1,595	17,472	96,541
Facilities	218,411	(218,411)	-	-	-	-
Depreciation	11,676	-	(11,676)	-	-	-
Information technology	36,405	-	-	(36,405)	-	-
Other	70,411	-	-	-	(70,411)	-
Total	<u><u>\$ 1,730,925</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,730,925</u></u>

SAINT KATHERINE COLLEGE
(A CALIFORNIA PUBLIC BENEFIT CORPORATION)

Notes to Financial Statements
For the Years Ended December 31, 2013, 2012, and 2011

NOTE 7. FUNCTIONAL CLASSIFICATION OF EXPENSES (Continued)

	2012					
	Before Allocation	Facilities	Depreciation	Information Technology	Other	After Allocation
Faculty and instruction	\$ 223,937	\$ 95,802	\$ 2,864	\$ 5,635	\$ 13,668	\$ 341,906
Housing	99,658	2,797	2,864	-	-	105,319
Administration	234,614	89,696	2,864	5,635	27,640	360,449
Athletic department	1,875	-	-	-	-	1,875
Fundraising and development	20,401	-	956	-	21,715	43,072
Facilities	188,295	(188,295)	-	-	-	-
Depreciation	9,548	-	(9,548)	-	-	-
Information technology	11,270	-	-	(11,270)	-	-
Other	63,023	-	-	-	(63,023)	-
Total	\$ 852,621	\$ -	\$ -	\$ -	\$ -	\$ 852,621

	2011					
	Before Allocation	Facilities	Depreciation	Information Technology	Other	After Allocation
Faculty and instruction	\$ 77,115	\$ 46,985	\$ 1,668	\$ 1,905	\$ 6,225	\$ 133,898
Housing	45,559	1,732	1,668	-	1,000	49,959
Administration	250,025	46,985	1,668	1,905	37,326	337,909
Athletic department	-	-	-	-	-	-
Fundraising and development	11,172	-	556	-	15,620	27,348
Facilities	95,702	(95,702)	-	-	-	-
Depreciation	5,560	-	(5,560)	-	-	-
Information technology	3,810	-	-	(3,810)	-	-
Other	60,171	-	-	-	(60,171)	-
Total	\$ 549,114	\$ -	\$ -	\$ -	\$ -	\$ 549,114