

THOMAS AQUINAS COLLEGE

Financial Statements

For the Years Ended June 30, 2020 and 2019

with

Independent Auditors' Report

ALMICH & ASSOCIATES

Certified Public Accounting and Business Services

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of
Thomas Aquinas College:

We have audited the accompanying financial statements of Thomas Aquinas College (a California not-for-profit corporation), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Thomas Aquinas College as of June 30, 2020 and 2019, 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.



Lake Forest, California
November 17, 2020

THOMAS AQUINAS COLLEGE
Statements of Financial Position
June 30, 2020 and 2019

Assets

	2020	2019
Current assets:		
Cash and cash equivalents	\$ 899,929	\$ 2,164,491
Marketable and other securities	2,002,700	72,768
Accounts receivable, net of allowance for doubtful accounts of \$25,800 for 2020 and 2019	216,503	100,019
Current portion of gifts and grants receivable	2,728,127	11,061,516
Prepaid expenses and other	1,116,799	507,945
Total current assets	6,964,058	13,906,739
Long-term assets:		
Cash and cash equivalents restricted for purchases of property, plant and equipment	11,221,103	10,426,329
Cash restricted for endowment	3,720,980	2,082,163
Student loans receivable, net of allowance for doubtful accounts of \$107,535 for 2020 and \$106,044 for 2019	264,583	255,688
Gifts and grants receivable, net of current portion and present value discount	1,394,685	261,037
Property, plant and equipment, net of accumulated depreciation and amortization of \$37,171,340 for 2020 and \$34,022,515 for 2019	84,780,157	82,621,036
Interests in producing oil and gas properties	2,132,000	2,491,972
Assets held in trusts and gift annuities	3,281,051	3,262,692
Marketable and other securities	21,444,135	23,189,158
Assets held for sale	1,420,894	-
Total long-term assets	129,659,588	124,590,075
Total assets	\$ 136,623,646	\$ 138,496,814

See notes to financial statements

THOMAS AQUINAS COLLEGE
Statements of Financial Position
June 30, 2020 and 2019

Liabilities and Net Assets

	2020	2019
Current liabilities:		
Accounts payable	\$ 844,736	\$ 630,883
Accrued expenses	684,914	706,275
Prepaid tuition and room deposits	701,399	771,792
Current portion of obligations under trusts and gift annuities	185,968	180,167
Current portion of long-term debt	858,796	135,000
Total current liabilities	3,275,813	2,424,117
Long-term liabilities:		
Obligations under trusts and gift annuities, net of current portion	1,614,649	1,623,786
Long-term debt, net of current portion	12,167,602	10,166,088
Total long-term liabilities	13,782,251	11,789,874
Total liabilities	17,058,064	14,213,991
Net assets:		
Without donor restrictions	79,055,919	81,292,739
With donor restrictions	40,509,663	42,990,084
Total net assets	119,565,582	124,282,823
Total liabilities and net assets	\$ 136,623,646	\$ 138,496,814

See notes to financial statements

THOMAS AQUINAS COLLEGE
Statement of Activities
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Tuition	\$ 11,103,885	\$ -	\$ 11,103,885
Auxiliary enterprises	3,154,450	-	3,154,450
Gifts and grants	7,147,594	1,904,452	9,052,046
Oil/gas royalty and working interest	166,883	-	166,883
Other	396,363	-	396,363
Gain on investments:			
Dividends and interest	22,909	564,978	587,887
Realized gain (loss) on marketable and other securities, net	(4,213)	333,884	329,671
Unrealized loss on marketable and other securities, net	(3,570)	(661,841)	(665,411)
Total revenues, gains and other support	21,984,301	2,141,473	24,125,774
Net assets released from restrictions	4,621,894	(4,621,894)	-
	<u>26,606,195</u>	<u>(2,480,421)</u>	<u>24,125,774</u>
Expenses:			
Instruction	7,406,329	-	7,406,329
Administration	1,734,769	-	1,734,769
Student recruitment	1,032,701	-	1,032,701
Development	2,416,822	-	2,416,822
Operations and maintenance	3,627,723	-	3,627,723
Student financial aid	4,241,665	-	4,241,665
Interest and fees on debt	472,712	-	472,712
Auxiliary enterprises	4,286,866	-	4,286,866
Depreciation and amortization	3,148,825	-	3,148,825
Other	114,631	-	114,631
Impairment on interest in producing oil and gas properties	359,972	-	359,972
Total expenses	<u>28,843,015</u>	<u>-</u>	<u>28,843,015</u>
Change in net assets	(2,236,820)	(2,480,421)	(4,717,241)
Net assets, beginning of year	81,292,739	42,990,084	124,282,823
Net assets, end of year	<u>\$ 79,055,919</u>	<u>\$ 40,509,663</u>	<u>\$ 119,565,582</u>

See notes to financial statements

THOMAS AQUINAS COLLEGE

Statement of Activities

For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Tuition	\$ 9,939,120	\$ -	\$ 9,939,120
Auxiliary enterprises	3,430,600	-	3,430,600
Gifts and grants	13,658,422	892,922	14,551,344
Oil/gas royalty and working interest	216,745	-	216,745
Other	192,160	-	192,160
Gain on investments:			
Dividends and interest	32,978	644,117	677,095
Realized gain on marketable and other securities, net	6,291	44,455	50,746
Unrealized gain (loss) on marketable and other securities, net	(1,829)	1,670,130	1,668,301
Total revenues, gains and other support	27,474,487	3,251,624	30,726,111
Net assets released from restrictions	29,160,730	(29,160,730)	-
	56,635,217	(25,909,106)	30,726,111
Expenses:			
Instruction	6,682,144	-	6,682,144
Administration	1,489,640	-	1,489,640
Student recruitment	736,582	-	736,582
Development	2,142,475	-	2,142,475
Operations and maintenance	3,322,282	-	3,322,282
Student financial aid	4,248,622	-	4,248,622
Interest and fees on debt	431,444	-	431,444
Auxiliary enterprises	3,836,483	-	3,836,483
Depreciation and amortization	2,420,631	-	2,420,631
Other	155,366	-	155,366
Total expenses	25,465,669	-	25,465,669
Change in net assets	31,169,548	(25,909,106)	5,260,442
Net assets, beginning of year	50,123,191	68,899,190	119,022,381
Net assets, end of year	\$ 81,292,739	\$ 42,990,084	\$ 124,282,823

See notes to financial statements

THOMAS AQUINAS COLLEGE
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (4,717,241)	\$ 5,260,442
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gift - real property	(220,894)	(2,000,000)
Depreciation and amortization	3,148,825	2,420,631
Unrealized loss (gain) on marketable and other securities, net	665,411	(1,668,301)
Loss on disposal of property, plant and equipment	-	12,886
Changes in assets and liabilities:		
Accounts receivable, net	(116,484)	(14,313)
Student loans receivable, net	(8,895)	(16,060)
Gifts and grants receivable, net	5,999,741	3,071,718
Prepaid expenses and other	(608,854)	102,132
Assets held in trusts and gift annuities	(18,359)	(120,343)
Accounts payable	213,853	140,581
Accrued expenses	(21,361)	2,505
Prepaid tuition and room deposits	(70,393)	(106,099)
Obligations under trusts and gift annuities	(3,336)	676
Net cash provided by operating activities	4,242,013	7,086,455
Cash flows from investing activities:		
Net sale (purchases) of marketable and other securities	(850,320)	1,819,621
Purchases of property, plant and equipment	(4,947,974)	(4,977,721)
Net cash used by investing activities	(5,798,294)	(3,158,100)
Cash flows from financing activities:		
Principal repayments on long-term debt	(135,000)	(2,500,000)
Proceeds from long-term debt	2,860,310	5,600,000
Net cash provided by financing activities	2,725,310	3,100,000
Net increase in cash, cash equivalents and restricted cash	1,169,029	7,028,355
Cash, cash equivalents, and restricted cash beginning of year	14,672,983	7,644,628
Cash, cash equivalents, and restricted cash end of year	\$ 15,842,012	\$ 14,672,983
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 424,097	\$ 311,805
Cash paid for income taxes	\$ -	\$ -

See notes to financial statements

THOMAS AQUINAS COLLEGE
Notes to Financial Statements
June 30, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Thomas Aquinas College (the College) is a Catholic nonprofit educational institution with two campuses located in Santa Paula, California and Northfield, Massachusetts. The College offers an integrated liberal arts program based on a study of the Great Books. The College is primarily funded by tuition, room and board charges, and gifts.

Basis of Accounting

The financial statements of the College have been prepared on the accrual basis of accounting.

Basis of Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the College and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that need to be maintained permanently by the College or whose restrictions will be met either by the actions of the College or the passage of time.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed stipulations. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

As of June 30, 2020 and 2019, net assets with donor restrictions that are available for certain operations and facility improvements of the College amounted to \$20,648,770 and \$24,872,276, respectively, and net assets restricted in perpetuity amounted to \$19,860,893 and \$18,117,808, respectively. The income from net assets restricted in perpetuity is classified as restricted and is expendable to primarily support student financial aid, library operations, and the St. Vincent de Paul Lecture Series.

Net assets released from restrictions for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Previously restricted for Northfield Campus	\$ -	\$ 26,839,626
Appropriated for endowment spending	1,228,231	1,118,558
Facilities	3,393,663	1,202,546
	<u>\$ 4,621,894</u>	<u>\$ 29,160,730</u>

Risks and Uncertainties

The College is subject to risks and uncertainties as a result of the recent novel coronavirus (COVID-19). While management continues to monitor the situation and its financial impact on the College, the extent to which the COVID-19 pandemic ultimately affects the College's financial position, cash flows and results of operations currently remains uncertain.

Cash and Cash Equivalents

The College considers cash equivalents to be only those investments with original maturities of three months or less. Cash equivalents consist of certificates of deposits, money market funds and treasury bills as of June 30, 2020 and 2019.

Accounts and Student Loans Receivable

Accounts and student loans receivable are recorded at the net realizable value expected to be received from students or third-party payors and are not collateralized. The allowance for doubtful accounts associated with the College's accounts and student loans receivable is management's best estimate based upon historical experience. As of June 30 of each year, classes are not in session and, therefore, all of the College's receivables are fully-earned. Management continually monitors and adjusts its allowance associated with the College's receivables to address any credit risks associated with the accounts and student loans receivable. When uncertainty exists as to the collection of receivables, the College records an allowance for doubtful accounts and a corresponding charge to bad debt expense.

Revenue Recognition

Student tuition and room and board charges are recognized on a straight-line basis over the term of instruction. Prepaid tuition and room deposits represent cash collected in excess of tuition and room and board charges billed as of the statement of financial position date; these amounts are applied to future tuition and room and board charges should the student remain active; if not, the monies are refunded.

Gifts and grants are recognized as revenue when they are received or unconditionally pledged to the College. Unconditional pledges to give to the College are reflected as gifts and grants receivable. The College reports gifts of cash and other assets as support with donor restrictions if the donor places limitations on the use of the donated asset. Gifts of assets other than cash are recorded at estimated fair value at the date of the gift.

Assets Held in Trusts and Gift Annuities and Obligations Under Trusts and Gift Annuities

Assets held in trusts include assets in irrevocable trusts. The College has been named trustee for these trusts by the donors. The trust assets are being invested in various investment securities and are reflected at estimated fair market value on the accompanying statements of financial position.

Under certain of the trusts, the donors are the life beneficiaries and will receive payments per annum from the net income of the trust or a fixed percentage of the fair market value of the trust assets, as stipulated in trust agreements. An amount equal to the estimated present value of the liability for the annuity payables has been recorded as an obligation under trusts and gift annuities on the accompanying statements of financial position. The estimated present values as of June 30, 2020, were calculated using appropriate Internal Revenue Service (IRS) regulations. The College has been named the remainder beneficiary or co-beneficiary of all trusts. The fair market value of the trust assets at June 30, 2020 and 2019 was \$1,136,703 and \$1,163,279, respectively.

Certain trust agreements require that income of the trusts be added to and become principal, and that the trustee shall from time to time apply, for the benefit of the beneficiaries, such amounts as needed for tuition and room and board at the College. These trusts will terminate upon the beneficiaries graduation from the College, or upon the beneficiaries reaching a certain age, as stipulated in the trust agreements. The College has been named the remainder beneficiary of these trusts. The fair market value of the trust assets at June 30, 2020 and 2019 was \$216,799 and \$214,254, respectively.

In addition, the College has a gift annuity plan under which the donors are the life beneficiaries and will receive payments calculated in accordance with the plan. An amount equal to the estimated present value of the liability for the annuity payable has been recorded as an obligation under trusts and gift annuities on the accompanying statements of financial position. The discount rate and actuarial assumption (life expectancy) used in calculating the estimated present value is based on the 2000CM Mortality Table and IRS discount rate of each annuity. The fair market value of the gift annuity assets at June 30, 2020 and 2019 was \$1,927,549 and \$1,885,159, respectively.

Assets Held for Sale

As of June 30, 2020, the College had properties with an appraised value totaling \$1,420,894; the College intends to sell these properties. Subsequent to June 30, 2020, one of the properties was sold for \$220,894.

Marketable and Other Securities

The College invests in various investment securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statements of activities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the College's account balances and the amounts reported in the statements of financial position.

Endowment

The College's endowment funds are all donor restricted and consisted of three funds primarily supporting student financial aid, library operations, and the St. Vincent de Paul Lecture Series. The College's endowment funds are managed by an independent investment firm selected and overseen by the Investment Committee of the Board of Governors. The investment objectives are to maintain a balanced account with quality securities and cash equivalents, with an emphasis on preservation of capital coupled with long term growth of principal with income sufficient to meet the College's spending policies. Equities are typically set within a range of 40% to 70% of the total fund market value, and individual bond holdings (exclusive of U.S. Treasury and Government Agency holdings) will normally represent no more than 7% to 10% of the portfolio. The College has one endowment fund with donor specified investment guidelines, which the investment managers follow.

The College's policy is to retain within the endowment any dividend or interest income earned by endowment funds. On September 30 of each year, an amount equal to a percentage of the average market value of the endowment fund on June 30 of the preceding three fiscal years will be transferred from the endowment fund to the unrestricted fund. The percentage for both of the fiscal years ended June 30, 2020 and 2019 was 5.0%. In so doing, the College has implemented the principles of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The College has two endowment funds with different donor specified spending policies. Amounts appropriated for spending are included within net assets released from restrictions on the accompanying statements of activities.

When an individual endowment fund explicitly prohibits "under water" distributions, such distributions will not be made. The College considers a fund to be "under water" if the fair value of a fund is less than sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The College had no underwater endowment funds at June 30, 2020 and 2019.

The changes in endowment net assets for the years ended June 30, 2020 and 2019 were as follows:

	2020	2019
Endowment net assets, beginning of year	\$ 25,271,321	\$ 24,149,821
Contributions	1,743,083	117,134
Investment return, net	(621,058)	2,122,924
Amounts appropriated for spending	<u>(1,228,231)</u>	<u>(1,118,558)</u>
Endowment net assets, end of year	<u>\$ 25,165,115</u>	<u>\$ 25,271,321</u>

Interests in Producing Oil & Gas Properties

The College has a portfolio of oil and gas interests which was recorded at its estimated fair market value at the date of gift. Three of these interests, representing the most significant of the interests received, have been valued by an independent petroleum engineer. These assets are maintained at the lesser of cost or fair market value, as determined on an annual basis by an independent petroleum engineer. As of June 30, 2020 and 2019, the appraisal from an independent petroleum engineer estimated the fair market value of the asset to be approximately \$2,132,000 and \$2,507,000, respectively. The carrying value of the asset was reduced from \$2,491,972 to the fair market value of \$2,132,000 as of June 30, 2020; the related non-cash impairment charge of \$359,972 is reflected as impairment on interest in producing oil and gas properties on the accompanying 2020 statement of activities.

Income Taxes

The College is a not-for-profit entity that is exempt from federal income tax pursuant to Internal Revenue Code Section (IRC) 501(c)(3) and the corresponding section of the California Revenue and Taxation Code.

The College has unrelated business income related to certain of its interests in producing oil and gas properties from time to time. There was no provision for unrelated business income tax for the years ended June 30, 2020 and 2019.

Auxiliary Enterprises

Auxiliary enterprises consist of bookstore, dormitory and food service operations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board issued *Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers*, which establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. This *ASU* will be effective for the College for the year ending June 30, 2021. The College is currently evaluating the effect the provisions of *ASU 2014-09* will have on the financial statements.

Subsequent Events

The College has evaluated subsequent events through the date of the auditors' report, November 17, 2020, which is the date the accompanying financial statements were available to be issued.

NOTE 2 – GIFTS AND GRANTS RECEIVABLE

Gifts and grants receivable consist of unconditional promises to give cash to the College.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free rate of 3.0 percent and are being accreted and recognized over the discount period.

Gifts and grants receivable are expected to be collected in the following periods as of June 30, 2020 and 2019:

	<i>Gifts and Grants Receivable as of June 30, 2020</i>			
	General		Restricted for	Total
	Operations	Facilities	Endowment	
Less than one year	\$ 314,438	\$ 2,000,000	\$ 413,689	\$ 2,728,127
One to five years	1,424,115	-	-	1,424,115
	1,738,553	2,000,000	413,689	4,152,242
Present value discount	(29,430)	-	-	(29,430)
Gifts and grants receivable	<u>\$ 1,709,123</u>	<u>\$ 2,000,000</u>	<u>\$ 413,689</u>	<u>\$ 4,122,812</u>

	<i>Gifts and Grants Receivable as of June 30, 2019</i>			
	General		Restricted for	Total
	Operations	Facilities	Endowment	
Less than one year	\$ 6,551,516	\$ 4,500,000	\$ 10,000	\$ 11,061,516
One to five years	270,638	-	-	270,638
	6,822,154	4,500,000	10,000	11,332,154
Present value discount	(9,601)	-	-	(9,601)
Gifts and grants receivable	<u>\$ 6,812,553</u>	<u>\$ 4,500,000</u>	<u>\$ 10,000</u>	<u>\$ 11,322,553</u>

As of June 30, 2020, approximately 81% of total gifts and grants receivable were due from two donors. Management does not believe that there are any collectability issues associated with the College's gifts and grants receivable.

NOTE 3 – FAIR VALUE MEASUREMENTS

The College uses a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted market prices in active markets for identical assets; Level 2, defined as inputs other than quoted prices in active markets that are either observable directly or indirectly through market corroboration, for substantially the full term of the financial instrument; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Following is a description of the valuation methodologies used for investments measured at fair value at June 30, 2020 and 2019.

Common stocks, preferred stocks and fixed-rate capital securities: Valued at the closing price reported on the active market on which the individual securities are traded.

U. S. treasury bonds: Valued using pricing models maximizing the use of observable inputs for similar securities.

Corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing the value on yields currently available on comparable securities of issuers with similar credit ratings.

Exchange-traded funds: Valued at intraday indicative value using most recent value of the fund based on market prices of the underlying securities.

Certificates of deposit: Valued at balances plus accrued interests less withdrawals.

Equity securities – private companies: Valued at book value per share.

The following tables set forth by level, within the fair value hierarchy, the College's marketable and other securities and assets held in trusts and gift annuities at fair value as of June 30, 2020 and 2019. Classification within the fair value hierarchy table is based on the lowest level of any input that is significant to the fair value measurement.

	2020	Total	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Marketable securities and other:</i>					
Common stocks	\$	10,356,948	\$ 10,356,948	\$ -	\$ -
U.S. treasury bonds		8,959,875	8,959,875	-	-
Exchange-traded funds		2,179,063	2,179,063	-	-
Corporate bonds		927,267		927,267	-
Certificates of deposit		797,972	797,972	-	-
Fixed-rate capital securities		150,660	150,660	-	-
Equity securities - private companies		75,050	-	-	75,050
	\$	23,446,835	\$ 22,444,518	\$ 927,267	\$ 75,050
Less: current portion		(2,002,700)			
	\$	21,444,135			
<hr/>					
2019					
<i>Marketable securities and other:</i>					
Common stocks	\$	15,578,658	\$ 15,578,658	\$ -	\$ -
U.S. treasury bonds		2,450,594	2,450,594	-	-
Corporate bonds		2,439,865	-	2,439,865	-
Exchange-traded funds		1,719,473	1,719,473	-	-
Certificates of deposit		792,037	792,037	-	-
Fixed-rate capital securities		161,820	161,820	-	-
Equity securities - private companies		119,479	-	-	119,479
	\$	23,261,926	\$ 20,702,582	\$ 2,439,865	\$ 119,479
Less: current portion		(72,768)			
	\$	23,189,158			

2020	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Assets held in trusts and gift annuities:</i>				
Common stocks	\$ 957,574	\$ 957,574	\$ -	\$ -
Exchange-traded funds	980,466	980,466	-	-
U.S. treasury bonds	547,116	547,116	-	-
Cash	298,570	298,570	-	-
Certificates of deposit	268,465	268,465	-	-
Corporate bonds	124,298	-	124,298	-
Preferred stock	55,462	55,462	-	-
Fixed-rate capital securities	27,283	27,283	-	-
Equity securities - private companies	21,817	-	-	21,817
	<u>\$ 3,281,051</u>	<u>\$ 3,134,936</u>	<u>\$ 124,298</u>	<u>\$ 21,817</u>
2019				
<i>Assets held in trusts and gift annuities:</i>				
Common stocks	\$ 1,177,305	\$ 1,177,305	\$ -	\$ -
Exchange-traded funds	870,992	870,992	-	-
Certificates of deposit	340,973	340,973	-	-
Corporate bonds	290,000	-	290,000	-
U.S. treasury bonds	337,823	337,823	-	-
Cash	139,719	139,719	-	-
Preferred stock	57,562	57,562	-	-
Fixed-rate capital securities	28,710	28,710	-	-
Equity securities - private companies	19,608	-	-	19,608
	<u>\$ 3,262,692</u>	<u>\$ 2,953,084</u>	<u>\$ 290,000</u>	<u>\$ 19,608</u>

The following table sets forth a summary of changes in the fair value of the College's Level 3 assets for the years ended June 30:

	2020	2019
Balance, beginning of year	\$ 139,087	\$ 186,113
Donation of equity securities	-	2,000
Sales of equity securities	(53,809)	(61,714)
Unrealized gains	11,589	12,688
Balance, end of year	<u>\$ 96,867</u>	<u>\$ 139,087</u>

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are either stated at purchase cost or the estimated fair market value at date of gift and consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 10,039,815	\$ 10,039,815
Buildings and improvements	99,742,659	95,630,143
Equipment and artwork	7,767,137	7,195,566
Library books	627,484	598,201
	<u>118,177,095</u>	<u>113,463,725</u>
Less: accumulated depreciation and amortization	<u>(37,171,340)</u>	<u>(34,022,515)</u>
	81,005,755	79,441,210
Construction in progress	3,774,402	3,179,826
	<u>\$ 84,780,157</u>	<u>\$ 82,621,036</u>

Depreciation and amortization expense was \$3,148,825 and \$2,420,631 for the years ended June 30, 2020 and 2019, respectively.

In August 2018, the College received a gift of approximately 360 acres of land adjacent to the College, which includes an avocado orchard of approximately 40 acres. The College has leased the avocado orchard to a local agricultural operator for ten years. The annual rental payment starts at \$39,000 and increases to \$80,000. The lessee pays all input costs and reaps the benefit of the avocado harvest. The fair value of the donated land is estimated to be approximately \$2,000,000. In addition, the College purchased approximately 354 acres of land adjacent to the College for \$2,150,000 from the donor. The College entered into a promissory note of \$2,500,000 with an entity owned by one of the College's board members to fund this purchase. The promissory note bore interest at 5.00% and required no monthly payment. The promissory note balance was paid in full in January 2019.

The above described donated and purchased land is zoned as open space which restricts its use. Except for the 40 acre avocado orchard, the rest of the property is intended to be used for student educational and recreational purposes.

It is the College's policy to capitalize all additions with a purchase cost or estimated fair market value at date of gift of \$2,000 or more. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	30 years
Equipment	5 - 10 years
Library books	10 years

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors indicate that assets should be evaluated for possible impairment, management would prepare an analysis comparing the carrying value of the assets to future undiscounted cash flows of the underlying assets. The net book value of the underlying assets is adjusted to fair value if the sum of the expected undiscounted future cash flows is less than book value. To date, management has not identified any such factors pertaining to the College's long-lived assets.

NOTE 5 – LONG-TERM DEBT

Note Payable

The College has a note agreement (the Note) with a bank in the initial amount of \$8,306,088. In January 2019, the Note was amended with additional borrowings of \$2,500,000. The additional borrowings were used to pay off the promissory note funded the purchase of land adjacent to the College, described in Note 4. The Note bears interest at 4.75%, and requires monthly payments of interest only with annual principal payments, with final payment due July 1, 2024. In July 2020, the Note was amended with a new interest rate of 4.00%. Prepayments of principal may be made at any time without penalty. The Note is secured by a deed of trust on the College's property. As of June 30, 2020 and 2019, the outstanding balance of the Note was \$9,566,088 and \$9,701,088, respectively.

The Note has certain financial covenants. As of June 30, 2020, the College was not in compliance with one of the covenants and obtained a waiver from the bank.

Promissory Note

On May 2, 2017, the College entered into a promissory note agreement with a financing institution in the amount of \$5,000,000. On May 1, 2019, the College requested and received the initial advance of \$600,000. Further advance requests may be made in the minimum amount of \$100,000 per request, up to the maximum loan amount of \$5,000,000, from the date of the initial advance of May 1, 2019 until the earlier of (i) a date requested by the financing institution; or (ii) the date which is thirty-six months after the initial advance on May 1, 2019. The initial advance bears interest at 1.5% per annum until May 1, 2022 and requires monthly interest only payments. In April 2020, the College requested and received another advance of \$1,000,000. Following May 1, 2022 until the maturity date of May 1, 2042, the note bears a fixed rate equal to the Applicable Treasury Constant Maturity Rate plus 250 basis points or 4.00%, whichever is greater, and requires monthly principal and interest payments with the remaining principal and any accrued but unpaid interest due in full on the maturity date. The promissory note is secured by the Northfield Campus. As of June 30, 2020 and 2019, the outstanding balance of this note was \$1,600,000 and \$600,000, respectively.

Line of Credit

On January 9, 2019, the College entered into a \$5,000,000 line of credit agreement with a bank which matures July 1, 2024. Borrowings bear interest at a variable rate based on prime plus 0.25% and are collateralized by a deed of trust on the College's property. There was no outstanding balance under the line of credit as of June 30, 2020 and 2019.

Paycheck Protection Program Loan Funds

In April 2020, the College received \$1,860,310 in loan proceeds from a bank pursuant to the U.S. Small Business Administration's (SBA) Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Securities Act (CARES ACT). Proceeds received under the terms of the loan are subject to partial or full forgiveness provided that the College meets certain spending requirements. Any proceeds from the loan which are not forgiven will bear interest at 1.0% and payable in 18 installments of principal and interest after a deferment period of six months from the date loan proceeds were first disbursed. The College currently intends to apply for full forgiveness of the loan proceeds.

Future maturities of long-term debt as of June 30, 2020 were as follows:

Year Ending June 30,	
2021	\$ 858,796
2022	1,277,235
2023	204,209
2024	205,254
2025	9,097,396
Thereafter	<u>1,383,508</u>
	13,026,398
Less: current portion	<u>(858,796)</u>
	<u><u>\$ 12,167,602</u></u>

NOTE 6 – RETIREMENT CONTRIBUTION ARRANGEMENTS FOR EMPLOYEES

The College operates a defined contribution plan (the Plan) under section 403(b) of IRC. The Plan covers substantially all employees with over 1,000 hours of service over a twelve-month period. Eligible participants are required to defer 5% of their eligible compensation to the Plan. Matching contributions by the College are equal to 100% of the first 5% of the employee's eligible compensation up to IRC limits. All contributions made to the Plan vest immediately. Total matching contributions to employee selected retirement funds for the years ended June 30, 2020 and 2019 were approximately \$340,000 and \$295,000, respectively.

NOTE 7 – LIQUIDITY AND AVAILABILITY

The College's financial assets available within one year of the date of financial position for general expenditures are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 899,929	\$ 2,164,491
Marketable and other securities	2,002,700	72,768
Current portion of gifts and grants receivable	314,438	6,551,516
Account receivable, net	216,503	100,019
Endowment payout for use over the next twelve months	<u>1,149,599</u>	<u>1,228,231</u>
	<u><u>\$ 4,583,169</u></u>	<u><u>\$ 10,117,025</u></u>

The College's practice is to structure its financial assets to be available as its general expenditures, liabilities and obligations come due.

The College's cash and cash equivalents on hand as of June 30, 2020 and 2019 generally reflects a cumulative amount in excess of operational needs. The College has experienced a consistent history of annual tuition, auxiliary enterprises, gift and grants revenues exceeding its operating expenses.

NOTE 8 – EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATION

The College's primary service is academic instruction. Natural expenses attributable to more than one functional expense category are allocated based on a variety of cost allocation techniques such as time and effort related to the program and supporting services benefited.

Expenses by natural and functional classification consist of the following for the years ended June 30, 2020 and 2019:

2020	Program Expenses	Management and General Expenses	Fundraising Expenses	Total
Grants and other assistance	\$ 2,587,201	\$ -	\$ -	\$ 2,587,201
Salary, wages and fringe benefits	10,720,986	3,244,512	295,013	14,260,511
Occupancy	2,500,421	292,680	19,476	2,812,577
Professional and other services	2,251,805	348,302	348,634	2,948,741
Office supplies and minor equipment	351,614	115,052	134,158	600,824
Interest	425,441	47,271	-	472,712
Depreciation	2,835,736	313,088	-	3,148,824
Other	1,163,707	593,566	254,352	2,011,625
	<u>\$ 22,836,911</u>	<u>\$ 4,954,471</u>	<u>\$ 1,051,633</u>	<u>\$ 28,843,015</u>

2019	Program Expenses	Management and General Expenses	Fundraising Expenses	Total
Grants and other assistance	\$ 2,575,498	\$ -	\$ -	\$ 2,575,498
Salary, wages and fringe benefits	9,661,317	2,853,296	250,497	12,765,110
Occupancy	2,257,400	266,150	18,557	2,542,107
Professional and other services	2,209,697	389,443	269,528	2,868,668
Office supplies and minor equipment	272,601	88,535	133,707	494,843
Interest	388,299	43,144	-	431,443
Depreciation	2,180,398	240,232	-	2,420,630
Other	898,677	256,186	212,507	1,367,370
	<u>\$ 20,443,887</u>	<u>\$ 4,136,986</u>	<u>\$ 884,796</u>	<u>\$ 25,465,669</u>

NOTE 9 – REGULATORY MATTERS

The College is subject to extensive regulation by federal and state governmental agencies and accrediting bodies. In particular, the Higher Education Act (the Act) and the regulations promulgated thereunder by the U.S. Department of Education (ED) subject the College to significant regulatory scrutiny on the basis of numerous standards that schools must satisfy in order to participate in the various federal student financial assistance programs under Title IV of the Act. These standards include, among others, financial responsibility and student default rates. Ineligibility to participate in the Title IV programs would have a material adverse effect on the College's enrollments, revenue and results of operations.

Institutions participating in Title IV programs are required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring. Institutions receiving a composite score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of June 30, 2020 and 2019, and for each of the years then ended, the College's composite score was 2.2.

For each federal fiscal year, ED calculates a rate of student defaults for each educational institution known as a "cohort default rate." Under certain defined circumstances, an institution may lose its eligibility to participate in some or all Title IV programs. As of June 30, 2020 and 2019, management believes that the College was in compliance with ED's requirements concerning its cohort default rate.

As a result of operating in a highly regulated industry, the College may be subject from time to time to audits, investigations, claims of noncompliance or lawsuits by governmental agencies, regulatory bodies, or other third parties. While there can be no assurance that such matters will not occur and if they do occur will not have a material adverse effect on the College's business, results of operations or financial condition, management believes that the College has complied with all regulatory requirements.

On November 1, 2016, ED published regulations on the topic of borrower defense to repayment which went in to effect in October 2018. On September 23, 2019, ED published regulations on this topic which will largely become effective July 1, 2020. The regulations allow a borrower to assert a defense to repayment based upon defined criteria and establish certain triggers which would require an institution to provide ED with additional reporting and/or financial guarantees. Management believes that the College is in compliance with the applicable regulations in all material respects.

NOTE 10 – CONCENTRATION OF CREDIT RISK

As of June 30, 2020 and 2019, the College had cash deposits with financial institutions in excess of the federally insured amount, as well as investment securities. Management does not believe the College is exposed to any significant credit risks on its cash or investments.