THOMAS AQUINAS COLLEGE

Financial Statements

For the Years Ended June 30, 2017 and 2016

with

Independent Auditors' Report

ALMICH & ASSOCIATES
AN ACCOUNTANCY CORPORATION
• 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, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Almich & Associates

Lake Forest, California
October 31, 2017

26463 Rancho Parkway South, Lake Forest • CA 92630 • (949) 600-7550 • Fax (949) 600-7558
website: www.almichcpa.com • email: info@almichcpa.com

THOMAS AQUINAS COLLEGE

Statements of Financial Position

June 30, 2017 and 2016

Assets

	2017	2016
Current assets:		
Cash and cash equivalents	$ 602,551	$ 671,160
Marketable and other securities	24,072	1,240,128
Accounts receivable, net of allowance for doubtful accounts of $25,600 for 2017 and 2016	98,493	61,360
Current portion of student loans receivable, net of allowance for doubtful accounts of $9,900 for 2017 and 2016	4,281	4,281
Current portion of gifts and grants receivable	2,919,369	2,099,501
Prepaid expenses and other	820,482	340,721
Total current assets	4,469,248	4,417,151
Long-term assets:		
Cash and cash equivalents restricted for purchases of property, plant and equipment	5,310,691	5,716,922
Cash restricted for endowment	3,462,410	2,516,388
Student loans receivable, net of current portion and allowance for doubtful accounts of $105,200 for 2017 and 2016	204,327	172,691
Gifts and grants receivable, net of current portion and present value discount	2,632,579	1,104,989
Property, plant and equipment, net	75,640,313	48,046,135
Interests in producing oil and gas properties	2,491,972	2,491,972
Assets held in trust and gift annuities	3,147,568	2,884,060
Marketable and other securities	19,043,097	17,757,408
Total long-term assets	111,932,957	80,690,565
Total assets	$ 116,402,205	$ 85,107,716

See notes to financial statements

THOMAS AQUINAS COLLEGE
Statements of Financial Position
June 30, 2017 and 2016

Liabilities and Net Assets

	2017	2016
Current liabilities:		
Accounts payable	$ 1,111,749	$ 507,481
Accrued expenses	717,879	195,192
Prepaid tuition and room deposits	866,460	668,853
Current portion of obligations under trusts and gift annuities	169,726	168,109
Current portion of note payable	35,000	35,000
Total current liabilities	2,900,814	1,574,635
Long-term liabilities:		
Obligations under trusts and gift annuities, net of current portion	1,669,023	1,587,754
Note payable, net of current portion	7,201,088	7,236,088
Total long-term liabilities	8,870,111	8,823,842
Total liabilities	11,770,925	10,398,477
Net assets:		
Unrestricted	48,558,444	44,403,940
Temporarily restricted	39,271,119	14,232,643
Permanently restricted	16,801,717	16,072,656
Total net assets	104,631,280	74,709,239
Total liabilities and net assets	$ 116,402,205	$ 85,107,716

THOMAS AQUINAS COLLEGE
Statement of Activities
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Tuition	$ 9,320,948	$ -	$ -	$ 9,320,948
Auxiliary enterprises	3,102,800	-	-	3,102,800
Gifts and grants	5,925,450	5,602,653	729,061	12,257,164
Gift - real property	-	24,000,000	-	24,000,000
Oil/gas royalty and working interest	172,839	-	-	172,839
Other	219,044	4,067	-	223,111
Gain on investments:				
Dividends and interest	31,555	542,922	-	574,477
Realized gain on marketable and other securities, net	22,625	128,767	-	151,392
Unrealized gain on marketable and other securities, net	11,072	1,384,054	-	1,395,126
Total revenues, gains and other support	18,806,333	31,662,463	729,061	51,197,857
Net assets released from restrictions	6,623,987	(6,623,987)	-	-
	25,430,320	25,038,476	729,061	51,197,857
Expenses:				
Instruction	5,837,264	-	-	5,837,264
Administration	1,281,517	-	-	1,281,517
Student recruitment	583,288	-	-	583,288
Development	2,085,266	-	-	2,085,266
Operations and maintenance	1,425,710	-	-	1,425,710
Student financial aid	4,187,597	-	-	4,187,597
Interest and fees on debt	313,189	-	-	313,189
Auxiliary enterprises	3,311,119	-	-	3,311,119
Depreciation and amortization	2,134,231	-	-	2,134,231
Other	116,635	-	-	116,635
Total expenses	21,275,816	-	-	21,275,816
Change in net assets	4,154,504	25,038,476	729,061	29,922,041
Net assets, beginning of year	44,403,940	14,232,643	16,072,656	74,709,239
Net assets, end of year	$ 48,558,444	$ 39,271,119	$ 16,801,717	$ 104,631,280

See notes to financial statements

THOMAS AQUINAS COLLEGE
Statement of Activities
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Tuition	$ 9,092,014	$ -	$ -	$ 9,092,014
Auxiliary enterprises	3,018,166	-	-	3,018,166
Gifts and grants	3,772,326	295,358	2,152,953	6,220,637
Oil/gas royalty and working interest	207,194	-	-	207,194
Other	146,010	-	-	146,010
Gain (loss) on investments:				
Dividends and interest	43,818	523,594	-	567,412
Realized gain (loss) on marketable and other securities, net	(7,108)	73,092	-	65,984
Unrealized gain on marketable and other securities, net	22,211	837,908	-	860,119
Total revenues, gains and other support	16,294,631	1,729,952	2,152,953	20,177,536
Net assets released from restrictions	1,925,522	(1,925,522)	-	-
	18,220,153	(195,570)	2,152,953	20,177,536
Expenses:				
Instruction	5,589,381	-	-	5,589,381
Administration	1,067,452	-	-	1,067,452
Student recruitment	598,761	-	-	598,761
Development	2,111,725	-	-	2,111,725
Operations and maintenance	1,227,261	-	-	1,227,261
Student financial aid	4,249,024	-	-	4,249,024
Interest and fees on debt	315,560	-	-	315,560
Auxiliary enterprises	3,093,798	-	-	3,093,798
Depreciation and amortization	2,130,757	-	-	2,130,757
Other	142,616	-	-	142,616
Total expenses	20,526,335	-	-	20,526,335
Change in net assets	(2,306,182)	(195,570)	2,152,953	(348,799)
Net assets, beginning of year	46,710,122	14,428,213	13,919,703	75,058,038
Net assets, end of year	$ 44,403,940	$ 14,232,643	$ 16,072,656	$ 74,709,239

See notes to financial statements

THOMAS AQUINAS COLLEGE
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 29,922,041	$ (348,799)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gift - real property	(24,000,000)	-
Depreciation and amortization	2,134,231	2,130,757
Unrealized gain on marketable and other securities, net	(1,395,126)	(860,119)
Loss on sale of artwork	3,336	36,616
Changes in assets and liabilities:		
Accounts receivable, net	(37,133)	87,173
Student loans receivable, net	(31,636)	(26,053)
Gifts and grants receivable, net	(2,347,458)	6,547,850
Prepaid expenses and other	(479,761)	143,803
Assets held in trust and gift annuities	(263,508)	(221,415)
Accounts payable	604,268	21,815
Accrued expenses	522,687	16,952
Prepaid tuition and room deposits	197,607	(127,057)
Obligations under trusts and gift annuities	82,886	141,347
Net cash provided by operating activities	4,912,434	7,542,870
Cash flows from investing activities:		
Change in cash and cash equivalents restricted for purchases of property, plant and equipment	406,231	(3,359,019)
Increase in cash restricted for endowment	(946,022)	(1,564,053)
Net sale (purchases) of marketable securities	1,325,493	(877,915)
Purchases of property, plant and equipment	(5,736,437)	(1,307,926)
Proceeds from sale of artwork	4,692	1,646
Net cash used by investing activities	(4,946,043)	(7,107,267)
Cash flows from financing activities:		
Principal payments on note payable	(35,000)	(38,276)
Net cash used by financing activities	(35,000)	(38,276)
Net increase (decrease) in cash and cash equivalents	(68,609)	397,327
Cash and cash equivalents, beginning of year	671,160	273,833
Cash and cash equivalents, end of year	$ 602,551	$ 671,160
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 313,313	$ 315,684
Cash paid for income taxes	$ -	$ 5,427

See notes to financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Thomas Aquinas College (the College) is a catholic nonprofit educational institution located in Santa Paula, California. 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 and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that need to be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary 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. It is the College's policy to classify as unrestricted temporarily restricted support whose stipulations are fully satisfied within the fiscal year received.

Temporarily restricted net assets are available for certain operations and facility improvements of the College.

Permanently restricted net assets are restricted to investment in perpetuity. The income from these investments is classified as temporarily restricted and is expendable to primarily support student financial aid, library operations, and the St. Vincent de Paul Lecture Series.

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 and money market funds as of June 30, 2017 and 2016.

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 are recognized on a straight-line basis over the term of instruction. Prepaid tuition and room deposits represent student balances from cash collected in excess of tuition and room charges billed as of the financial position date; these amounts are applied to future tuition and room 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 either temporarily or permanently restricted support 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 Trust and Gift Annuities and Obligations Under Trusts and Gift Annuities

Assets held in trust 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, 2017, 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, 2017 and 2016 was $1,198,780 and $986,649, 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, 2017 and 2016 was $189,624 and $174,034, 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, 2017 and 2016 was $1,759,164 and $1,723,377, respectively.

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 managed by two independent investment firms 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, 2017 and 2016 was 5.0%. In so doing, the College has implemented the principles of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). When an individual endowment fund explicitly prohibits "under water" distributions, such distributions will not be made. The College has two endowment funds with different donor specified spending policies. Amounts appropriated for spending for the years ended June 30, 2017 and 2016 totaled approximately $923,000 and $854,000, respectively, and are included within net assets released from restrictions on the accompanying statements of activities.

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 has no underwater endowment funds at June 30, 2017 and 2016.

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 appraiser. As of June 30, 2017 and 2016, the appraisal from an independent petroleum engineer estimated the fair market value of the asset to be approximately $3,700,000 and $3,800,000, respectively.

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 incurs unrelated business income tax related to certain of its interests in producing oil and gas properties. The current provision for unrelated business income tax for the year ended June 30, 2016 was approximately $12,000, and is reflected within other expenses on the accompanying 2016 statement of activities; there was no such provision for unrelated business income tax for the year ended June 30, 2017.

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 Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) 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. For non-public entities, the new standard was originally effective for annual periods beginning after December 15, 2017. In August 2015, FASB issued *ASU 2015-04, Revenue from Contracts with Customers – Deferral of Effective Date*, which deferred the effective date for one year. Accordingly, this *ASU* will be effective for the College for the year ending June 30, 2019. The College is currently evaluating the effect the provisions of *ASU 2014-09* will have on the financial statements.

In February 2016, FASB issued *ASU No. 2016-02, Leases*. The guidance in this *ASU* supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for the College for the year ending June 30, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The College is currently evaluating the effect the provisions of *ASU 2016-02* will have on the financial statements.

In August 2016, FASB issued *ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities*. *ASU 2016-14* will be effective for the College for its fiscal year ending June 30, 2019. The most significant provisions of *ASU 2016-14* are:

- reduction of the classes of net assets from three to two; net assets will be classified as either "net assets with donor restrictions" or "net assets without donor restrictions"
- there will be a requirement to disclose on the face of the financial statements, on a separate statement, or in the notes the amounts of expenses by both natural and functional classification
- there will be requirements for various new footnote disclosures which FASB believed were necessary for more useful financial reporting, including information about underwater endowment funds

In November 2016, FASB issued *ASU 2016-18, Statement of Cash Flows – Restricted Cash,* which requires that a statement of cash flows explains the change during the period in the total cash, cash equivalents, and amount generally described as restricted cash or restricted cash equivalents. *ASU 2016-18* will be effective for the College for its fiscal year ending June 30, 2019.

Subsequent Events

The College has evaluated subsequent events through the date of the auditors' report, October 31, 2017, which is the date the accompanying financial statements were available to be issued; there are no subsequent events which require recognition or disclosure.

NOTE 2 –REAL ROPERTY TRANSFERRED FROM NORTHFIELD CAMPUS, LLC

In May 2017, the College entered into a Grant Agreement (the Agreement) with Northfield Campus, LLC (NCLLC, a Georgia limited liability company) and National Christian Foundation Real Property, Inc. (a Georgia not-for-profit corporation and a sole member of NCLLC). NCLLC is the owner of certain real property located in the City of Northfield, Massachusetts (the Northfield Campus), which were previously owned and operated by the Northfield Mount Hermon School. In May 2017, NCLLC transferred the trusteeship of the Northfield Campus to the College. The Northfield Campus was valued at $24,000,000 as of May 22, 2017 by an independent third-party appraiser and has been reflected as gift – real property on the accompanying 2017 statement of activities.

Pursuant to the Agreement, the College will use the Northfield Campus to carry out its educational activities. The Northfield Campus cannot be sold or transferred without NCLLC's approval. The College was also required to establish a donor advised fund with National Christian Foundation, Inc. (NCF) for the purpose of holding donations made to the College designated for the Northfield Campus. As of June 30, 2017, the College had a balance of $363,230 in the donor advised fund account with NCF, which is reflected within prepaid expenses and other on the accompanying 2017 statement of financial position. NCF is also committed to donate up to $5,000,000 to the College's donor advised fund with NCF, to be matched dollar by dollar by corresponding contributions pertaining to the Northfield Campus. The $5,000,000 matching contributions are scheduled to be matched by NCF over a five-year period. The Agreement also contains certain obligations that the College must meet; failure of the College to meet its obligations shall relieve NCF from its obligations to provide the matching funding described above. As of June 30, 2017, the matching contributions from NCF were $934,977, which are included within current portion of gifts and grants receivable on the accompanying 2017 statement of financial position.

The College is in the process of obtaining the necessary permits and licenses to operate the Northfield Campus and is planning to commence operations in the fall of 2018.

NOTE 3 – 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 percent and are accreted and recognized over the discount period.

Gifts and grants receivable are expected to be collected in the following periods as of June 30, 2017 and 2016:

Gifts and Grants Receivable as of June 30, 2017

	General Operations	Northfield Campus Facilities	Restricted for Endowment	Total
Less than one year	$ 1,701,058	$ 1,218,311	$ -	$ 2,919,369
One to five years	404,211	1,941,875	398,351	2,744,437
	2,105,269	3,160,186	398,351	5,663,806
Present value discount	(23,704)	(88,154)	-	(111,858)
Gifts and grants receivable	$ 2,081,565	$ 3,072,032	$ 398,351	$ 5,551,948

Gifts and Grants Receivable as of June 30, 2016

	General Operations	Santa Paula Facilities	Restricted for Endowment	Total
Less than one year	$ 99,501	$ 2,000,000	$ -	$ 2,099,501
One to five years	96,553	-	1,011,470	1,108,023
	196,054	2,000,000	1,011,470	3,207,524
Present value discount	(3,034)	-	-	(3,034)
Gifts and grants receivable	$ 193,020	$ 2,000,000	$ 1,011,470	$ 3,204,490

As of June 30, 2017, approximately 23% of total gifts and grants receivable were due from one donor. Management does not believe that there are any collectability issues associated with the College's gifts and grants receivable.

NOTE 4 – 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, 2017 and 2016.

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.

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.

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

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, 2017 and 2016. Classification within the fair value hierarchy table is based on the lowest level of any input that is significant to the fair value measurement.

		Fair Value Measurements at Reporting Date Using		
2017	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities and other:				
Common stocks	$ 12,599,249	$ 12,599,249	$ -	$ -
Corporate bonds	3,594,401	-	3,594,401	-
Exchange-traded funds	1,301,400	1,301,400	-	-
Certificates of deposit	950,770	950,770	-	-
U.S. treasury bonds	353,598	353,598	-	-
Equity securities - private companies	168,625	-	-	168,625
Fixed-rate capital securities	99,126	99,126	-	-
	$ 19,067,169	$ 15,304,143	$ 3,594,401	$ 168,625
Less: current portion	(24,072)			
	$ 19,043,097			
2016				
Marketable securities and other:				
Common stocks	$ 12,919,503	$ 12,919,503	$ -	$ -
Corporate bonds	3,854,422	-	3,854,422	-
Exchange-traded funds	827,270	827,270	-	-
Certificates of deposit	765,722	765,722	-	-
Equity securities - private companies	203,451	-	-	203,451
Fixed-rate capital securities	200,400	200,400	-	-
U.S. treasury bonds	198,318	198,318	-	-
Preferred stocks	28,450	28,450	-	-
	$ 18,997,536	$ 14,939,663	$ 3,854,422	$ 203,451
Less: current portion	(1,240,128)			
	$ 17,757,408			

2017	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)
Assets held in trusts and gift annuities:				
Common stocks	$ 1,174,954	$ 1,174,954	$ -	$ -
Exchange-traded funds	791,370	791,370	-	-
Corporate bonds	414,676	-	414,676	-
Certificates of deposit	329,747	329,747	-	-
Cash	280,384	280,384	-	-
U.S. treasury bonds	71,039	71,039	-	-
Equity securities - private companies	43,972	-	-	43,972
Preferred stocks	41,426	41,426	-	-
	$ 3,147,568	$ 2,688,920	$ 414,676	$ 43,972

2016	Total	Level 1	Level 2	Level 3
Assets held in trusts and gift annuities:				
Common stocks	$ 1,173,820	$ 1,173,820	$ -	$ -
Cash	581,923	581,923	-	-
Exchange-traded funds	518,944	518,944	-	-
Corporate bonds	369,247	-	369,247	-
Certificates of deposit	180,382	180,382	-	-
Preferred stocks	59,745	59,745	-	-
	$ 2,884,060	$ 2,514,813	$ 369,247	$ -

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:

	2017	2016
Balance, beginning of year	$ 203,451	$ 285,148
Donation of equity securities	44,972	-
Sales of equity securities	(2,776)	(85,020)
Realized loss	(39,381)	-
Unrealized gains	6,331	3,323
Balance, end of year	$ 212,597	$ 203,451

NOTE 5 – 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:

	2017	2016
Land	$ 6,188,801	$ 1,288,801
Buildings and improvements	85,244,230	65,860,562
Equipment and artwork	6,664,666	6,542,778
Library books	568,430	555,492
	98,666,127	74,247,633
Less: accumulated depreciation and amortization	(29,491,343)	(27,358,590)
	69,174,784	46,889,043
Construction in progress	6,465,529	1,157,092
	$ 75,640,313	$ 48,046,135

Depreciation and amortization expense was $2,134,231 and $2,130,757 for the years ended June 30, 2017 and 2016, respectively.

It is the College's policy to capitalize all additions with a purchase cost or estimated fair market value at date of gift of $500 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 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, 2017 and 2016 were approximately $267,000 and $263,000, respectively.

NOTE 7 – NOTES PAYABLE

The College has a note agreement (the Note) with a bank in the initial amount of $8,306,088. The Note bears interest at 4.25%, and requires monthly payments of interest only with annual principal payments of increasing amounts, with final payment due July 1, 2024. 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, 2017 and 2016, the outstanding balance of the Note was $7,236,088, and $7,271,088, respectively.

Future maturities of notes payable as of June 30, 2017 were as follows:

Year Ending June 30,	
2018	$ 35,000
2019	100,000
2020	100,000
2021	100,000
2022	100,000
Thereafter	6,801,088
	$ 7,236,088

The note payable contains various financial covenants, as defined. As of June 30, 2017 and 2016, the College was in compliance with such covenants.

On May 2, 2017, the College entered into a promissory note agreement with a financing institution in the amount of $5,000,000. The College may request an initial advance in the minimum amount of $100,000 during the first twelve months from May 2, 2017. Further advances 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 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 (the Reset Date). The initial advance bears interest at 1.5% per annum until the Reset Date and requires monthly interest only payments. Following the Reset Date until the maturity date, 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. Maturity date is the twentieth anniversary of the Reset Date. The promissory note is secured by the Northfield Campus. As of June 30, 2017, there was no outstanding balance under this note.

NOTE 8 – 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, 2017 and 2016, and for each of the years then ended, the College's composite score was 3.0.

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, 2017 and 2016, 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.

NOTE 9 – CONCENTRATION OF CREDIT RISK

As of June 30, 2017 and 2016, 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.

ALMICH & ASSOCIATES
AN ACCOUNTANCY CORPORATION
• Certified Public Accounting and Business Services •

INDEPENDENT AUDITORS' REPORT ON COMBINING INFORMATION

To the Board of Governors of
Thomas Aquinas College:

We have audited the financial statements of Thomas Aquinas College (a California not-for-profit corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, which expressed an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.

The combining information in Schedule I and II is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the financial statements as a whole.

Almich & Associates

Lake Forest, California
October 31, 2017

26463 Rancho Parkway South, Lake Forest • CA 92630 • (949) 600-7550 • Fax (949) 600-7558
website: www.almichcpa.com • email: info@almichcpa.com

THOMAS AQUINAS COLLEGE

SUPPLEMENTAL SCHEDULE I - COMBINING STATEMENT OF FINANCIAL POSITION

June 30, 2017

Assets

	Santa Paula	Northfield	Total	Elimination	Combined Total
Current assets:					
Cash and cash equivalents	$ 602,551	$ -	$ 602,551	$ -	$ 602,551
Marketable and other securities	24,072	-	24,072	-	24,072
Accounts receivable, net of allowance for doubtful accounts	98,493	-	98,493	-	98,493
Current portion of student loans receivable, net of allowance for doubtful accounts	4,281	-	4,281	-	4,281
Current portion of gifts and grants receivable	1,701,058	1,218,311	2,919,369	-	2,919,369
Prepaid expenses and other	457,252	363,230	820,482	-	820,482
Due from Santa Paula	-	85,819	85,819	(85,819)	-
Total current assets	2,887,707	1,667,360	4,555,067	(85,819)	4,469,248
Long-term assets:					
Cash and cash equivalents restricted for purchases of property, plant and equipment	5,310,691	-	5,310,691	-	5,310,691
Cash restricted for endowment	3,462,410	-	3,462,410	-	3,462,410
Student loans receivable, net of current portion and allowance for doubtful accounts	204,327	-	204,327	-	204,327
Gifts and grants receivable, net of current portion and present value discount	778,856	1,853,723	2,632,579	-	2,632,579
Property, plant and equipment, net	51,481,558	24,158,755	75,640,313	-	75,640,313
Interests in producing oil and gas properties	2,491,972	-	2,491,972	-	2,491,972
Assets held in trust and gift annuities	3,147,568	-	3,147,568	-	3,147,568
Marketable and other securities	19,043,097	-	19,043,097	-	19,043,097
Total long-term assets	85,920,479	26,012,478	111,932,957	-	111,932,957
Total assets	$ 88,808,186	$ 27,679,838	$ 116,488,024	$ (85,819)	$ 116,402,205

THOMAS AQUINAS COLLEGE
SUPPLEMENTAL SCHEDULE I - COMBINING STATEMENT OF FINANCIAL POSITION
June 30, 2017

Liabilities and Net Assets

	Santa Paula	Northfield	Total	Elimination	Combined Total
Current liabilities:					
Accounts payable	$ 1,076,059	$ 35,690	$ 1,111,749	$ -	$ 1,111,749
Accrued expenses	676,213	41,666	717,879	-	717,879
Prepaid tuition and room deposits	866,460	-	866,460	-	866,460
Current portion of obligations under trusts and gift annuities	169,726	-	169,726	-	169,726
Current portion of note payable	35,000	-	35,000	-	35,000
Due to Northfield	85,819	-	85,819	(85,819)	-
Total current liabilities	2,909,277	77,356	2,986,633	(85,819)	2,900,814
Long-term liabilities:					
Obligations under trusts and gift annuities, net of current portion	1,669,023	-	1,669,023	-	1,669,023
Note payable, net of current portion	7,201,088	-	7,201,088	-	7,201,088
Total long-term liabilities	8,870,111	-	8,870,111	-	8,870,111
Total liabilities	11,779,388	77,356	11,856,744	(85,819)	11,770,925
Net assets:					
Unrestricted	48,558,444	-	48,558,444	-	48,558,444
Temporarily restricted	11,668,637	27,602,482	39,271,119	-	39,271,119
Permanently restricted	16,801,717	-	16,801,717	-	16,801,717
Total net assets	77,028,798	27,602,482	104,631,280	-	104,631,280
Total liabilities and net assets	$ 88,808,186	$ 27,679,838	$ 116,488,024	$ (85,819)	$ 116,402,205

THOMAS AQUINAS COLLEGE
SUPPLEMENTAL SCHEDULE II - COMBINING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Santa Paula				Northfield			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total	Combined Total
Revenues, gains and other support:								
Tuition	$ 9,320,948	$ -	$ -	$ 9,320,948	$ -	$ -	$ -	$ 9,320,948
Auxiliary enterprises	3,102,800	-	-	3,102,800	-	-	-	3,102,800
Gifts and grants	5,925,450	1,595,269	729,061	8,249,780	-	4,007,384	4,007,384	12,257,164
Gift - real property	-	-	-	-	-	24,000,000	24,000,000	24,000,000
Oil/gas royalty and working interest	172,839	-	-	172,839	-	-	-	172,839
Other	219,044	-	-	219,044	-	4,067	4,067	223,111
Gain on investments:								
Dividends and interest	31,555	542,922	-	574,477	-	-	-	574,477
Realized gain on marketable and other securities, net	22,625	128,767	-	151,392	-	-	-	151,392
Unrealized gain on marketable and other securities, net	11,072	1,384,054	-	1,395,126	-	-	-	1,395,126
Total revenues, gains and other support	18,806,333	3,651,012	729,061	23,186,406	-	28,011,451	28,011,451	51,197,857
Net assets released from restrictions	6,215,018	(6,215,018)	-	-	408,969	(408,969)	-	-
	25,021,351	(2,564,006)	729,061	23,186,406	408,969	27,602,482	28,011,451	51,197,857
Expenses:								
Instruction	5,818,210	-	-	5,818,210	19,054	-	19,054	5,837,264
Administration	1,130,703	-	-	1,130,703	150,814	-	150,814	1,281,517
Student recruitment	561,738	-	-	561,738	21,550	-	21,550	583,288
Development	1,915,688	-	-	1,915,688	169,578	-	169,578	2,085,266
Operations and maintenance	1,380,751	-	-	1,380,751	44,959	-	44,959	1,425,710
Student financial aid	4,187,597	-	-	4,187,597	-	-	-	4,187,597
Interest and fees on debt	313,189	-	-	313,189	-	-	-	313,189
Auxiliary enterprises	3,310,672	-	-	3,310,672	447	-	447	3,311,119
Depreciation and amortization	2,134,231	-	-	2,134,231	-	-	-	2,134,231
Other	114,068	-	-	114,068	2,567	-	2,567	116,635
Total expenses	20,866,847	-	-	20,866,847	408,969	-	408,969	21,275,816
Change in net assets	4,154,504	(2,564,006)	729,061	2,319,559	-	27,602,482	27,602,482	29,922,041
Net assets, beginning of year	44,403,940	14,232,643	16,072,656	74,709,239	-	-	-	74,709,239
Net assets, end of year	$ 48,558,444	$ 11,668,637	$ 16,801,717	$ 77,028,798	$ -	$ 27,602,482	$ 27,602,482	$ 104,631,280

See notes to financial statements