AQUINAS COLLEGE

FINANCIAL STATEMENTS

Year Ended June 30, 2012

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GRANNIS
& ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Aquinas College
Nashville, Tennessee

We have audited the accompanying statement of financial position of Aquinas College (a Tennessee nonprofit corporation) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aquinas College as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grannis & Associates, P. C.

Murfreesboro, Tennessee
November 15, 2012

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AQUINAS COLLEGE

STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash	$ 3,631,763	$ 3,135,220	$ -	$ 6,766,983
Accounts receivable, net	167,914	-	-	167,914
Unconditional promises to give, net	-	731,627	-	731,627
Prepaid expenses	36,258	-	-	36,258
Investments	4,421,745	1,119,529	2,878,418	8,419,692
Property and equipment, net	3,432,788	-	-	3,432,788
Total Assets	$ 11,690,468	$ 4,986,376	$ 2,878,418	$19,555,262

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Liabilities				
Accounts payable and accrued expenses	$ 229,123	$ -	$ -	$ 229,123
Deferred revenues and student deposits	267,609	-	-	267,609
Total Liabilities	496,732	-	-	496,732
Net Assets	11,193,736	4,986,376	2,878,418	19,058,530
Total Liabilities and Net Assets	$ 11,690,468	$ 4,986,376	$ 2,878,418	$19,555,262

The accompanying notes are an integral part of these financial statements.

AQUINAS COLLEGE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Reclassifications				
Gross tuition and fees	$ 9,728,233	$ -	$ -	$ 9,728,233
Less: scholarship allowance	(2,531,434)	-	-	(2,531,434)
Net Tuition and Fees	7,196,799	-	-	7,196,799
Private gifts and grants	1,093,873	480,942	26,082	1,600,897
Government grants	806,817	-	-	806,817
Investment income, net	63,864	16,382	-	80,246
Sales and services of auxiliary enterprises	47,015	-	-	47,015
Involuntary conversion from hail storm	14,626	-	-	14,626
Loss on disposal of fixed assets	(2,165)	-	-	(2,165)
Loss on uncollectible pledge	-	(1,349,496)	-	(1,349,496)
Other revenue	49,573	-	-	49,573
Total Revenues and Gains	9,270,402	(852,172)	26,082	8,444,312
Net assets released from restrictions	376,949	(376,949)	-	-
Total Revenues, Gains and Reclassifications	9,647,351	(1,229,121)	26,082	8,444,312
Expenses				
Programs:				
Education and general				
Instruction	3,828,178	-	-	3,828,178
Academic support	915,888	-	-	915,888
Student services	876,133	-	-	876,133
Auxiliary enterprises	47,318	-	-	47,318
Institutional support	2,263,203	-	-	2,263,203
Operation and maintenance of physical plant	845,386	-	-	845,386
Total Expenses	8,776,106	-	-	8,776,106
Change in Net Assets	871,245	(1,229,121)	26,082	(331,794)
Net Assets, Beginning of Year	10,322,491	6,215,497	2,852,336	19,390,324
Net Assets, End of Year	$ 11,193,736	$ 4,986,376	$ 2,878,418	$19,058,530

The accompanying notes are an integral part of these financial statements.

AQUINAS COLLEGE

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

Cash Flows from Operating Activities	
Decrease in net assets	$ (331,794)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	252,749
Loss on uncollectible pledge	1,349,496
Loss on disposal of assets	2,165
Gain on involuntary conversion from hail storm	(14,626)
Change in allowance for doubtful accounts	(445,602)
Change in pledge discount	(232,739)
Net unrealized losses on investments	175,900
Net realized losses on investments	32
Change in assets and liabilities:	
Increase in accounts receivable	(150,954)
Decrease in unconditional promises to give	1,136,853
Increase in prepaid expenses	(8,798)
Increase in accounts payable and accrued expenses	88,558
Decrease in deferred revenues	(134,713)
Contributions restricted for long-term purposes	(26,082)
Net Cash Provided by Operating Activities	1,660,445
Cash Flows from Investing Activities	
Purchases of property and equipment	(304,696)
Proceeds on involuntary conversion from hail storm	14,626
Proceeds on sales of investments	84,889
Net Cash Used By Investing Activities	(205,181)
Cash Flows from Financing Activities	
Contributions restricted for long-term purposes	26,082
Net Increase in Cash	1,481,346
Cash at Beginning of Year	5,285,637
Cash at End of Year	$ 6,766,983

The accompanying notes are an integral part of these financial statements.

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Aquinas College (the "College") is a private Catholic institution of higher education. Chartered on June 24, 1970 in Tennessee as a nonprofit corporation, the College has been in continuous operations since that time. The College offers an academically challenging liberal arts and sciences curriculum, and is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools.

The College is part of the Dominican Campus and is located on 83 wooded acres in Nashville, Tennessee. Owned and administered by the Dominican Sisters of St. Cecilia Congregation. The Dominican Sisters have been educating children, youth and adults of Nashville for over 150 years, leading students to a deeper knowledge of their faith, their heritage, and their responsibilities as members of society.

This summary of significant accounting policies of the College is presented to assist in understanding the College's financial statements. The financial statements and notes are representations of the College's management who is responsible for their integrity and objectivity.

Basis of Presentation

The financial statements of the College have been prepared in accordance with accounting principles generally accepted in the United States of America. These financial statements, presented on the accrual basis of accounting, have been prepared to focus on the College as a whole, and present balances and transactions classified according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and activities into three classes: permanently restricted, temporarily restricted or unrestricted.

Classification of Net Assets

The accompanying financial statements have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purpose by actions of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted net assets are subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

Permanently restricted net assets are subject to donor-imposed stipulations that the funds be maintained permanently by the College. Generally, the donors of such assets permit the College to use all or part of the income earned on the assets. Such assets primarily include the College's permanent general and scholarship endowments.

Use of 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 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.

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less, except for investments purchased with endowment assets, which are classified as long-term investments.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the College.

Unemployment Compensation

The College chose to be self-insured for unemployment compensation purposes. Any unemployment claims filed will be required to be paid by the College.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Income taxes

The College qualifies as a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, the College qualifies for the charitable contribution deduction and has been classified by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code.

The Financial Accounting Standards Board issued ASC 740-10, which prescribed a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. The College believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The College's Federal Return of Organization Exempt From Income Tax (Form 990) are subject to examination by the IRS, generally for three years after they were filed.

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Equipment, buildings, and improvements are recorded at cost or at estimated fair market value at date of gift if donated. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (5 to 40 years). Depreciation expense for the year was $252,749.

The College capitalizes all expenditures for equipment, buildings, and improvements when the purchase price is greater than $2,000 and have a useful life of more than 2 years. In addition, items that are part of a group purchase with a useful life greater than 2 years may also be capitalized even though individually the items may fall under the $2,000 threshold.

Investments

Investments in marketable equity and debt securities are stated at published market quotations. Investments in certificates of deposit or money market accounts are stated at cost, which approximates fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with investments, it is at least reasonably possible that changes in risk in the near term would materially affect the amounts reported in the statement of financial position.

Dividends and interest earned on investments are recorded on the accrual basis.

Revenue Recognition

Revenue from tuition and fees is reported in the fiscal year in which the related academic services are rendered.

Advertising

The College follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the year was $70,154.

Auxiliary Enterprise

The College's auxiliary enterprise exists primarily to furnish goods and services to students. The College's auxiliary enterprise consists of the College bookstore and cafeteria. The majority of textbooks are purchased by students online. Auxiliary enterprise revenues and expenses are reported in the statement of activities in unrestricted net assets.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents and unconditional promises to give to be received in less than one year approximate fair value because of the short maturity of those financial instruments. The fair value of unconditional promises to give to be received in more than one year is determined based on future cash flows discounted at 3.25%.

The College's financial instruments at June 30, 2012, are summarized as follows:

	Carrying Amount	Fair Value
Financial assets:		
Cash	$ 6,766,983	$ 6,766,983
Unconditional promises to give, net	731,627	731,627

NOTE B - ACCOUNTS RECEIVABLE

The majority of the College's accounts receivable are due from students of the College for tuition and fees and are non-interest bearing. Credit is extended based on evaluation of a student's financial condition and collateral is not required. Student accounts receivables are stated at amounts due, net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable. The College determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the College's previous loss history, and the individual student's current ability to pay its obligation to the College.

Accounts receivable consists of the following at June 30, 2012:

Student accounts receivable	$ 254,812
Other accounts receivable	35,218
Allowance for doubtful accounts - student accounts receivable	(122,116)
Net accounts receivable	$ 167,914

NOTE C - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises for which payment has not been received are included in the financial statements as pledges receivable and revenue in the appropriate net asset classification. The College has discounted long-term pledges to their estimated net present value, using a discount rate of 3.25%.

Temporarily restricted promises to give expected to be collected in:	
Less than one year	$ 676,506
One to five years	224,500
	901,006
Less allowance for uncollectible promises to give	(163,701)
Less discount on promises to give	(5,678)
Net unconditional promises to give	$ 731,627

The College has one unconditional promise to give which totals 83% of the unpaid balance as of June 30, 2012. The College also has a conditional promise to give up to $3,000,000 subject to donor and the College developing a strategic alliance for the advancement of nursing.

NOTE D - COMMUNITY FOUNDATION FUND

The College is the beneficiary of a fund created by a donor, the assets of which are not in the possession of the College. The Community Foundation has ultimate authority and control over the fund. The donor suggests that the return on the fund as determined under The Foundation's Total Return Concept and Spending Policy be paid to the College no less often than annually. In the event that Aquinas College ceases to exist or discontinues its provision of training for an undergraduate degree in education, the Foundation, should redirect the proceeds of this fund to the closest charitable program. The fair value at June 30, 2012 of the fund is $811,544.

NOTE E - RETIREMENT PLAN

Aquinas College's retirement plan is a defined-contribution annuity plan and is available to faculty, administrative, and clerical personnel. Eligibility is attained after one year of employment by the College. The College matches contributions up to 1% of annual salary the first year in the plan, up to 2% in the second year and 3% from the third year on. During the 2012 fiscal year, $47,907 was deposited into individual employee retirement accounts from unrestricted College resources.

NOTE F - CONTRIBUTED SERVICES

For the fiscal year ended June 30, 2012, the services contributed to the College by the religious members of the faculty and others had a net value of $745,816. The calculation of contributed services is based on comparable compensation obtained from surveys of area schools less actual cash stipends paid to the religious members of the College.

NOTE G - CONCENTRATION OF CREDIT RISK

The College maintains its operating cash balances in various financial institutions and brokerage accounts. The College shares a common operating account with other schools controlled by the St. Cecilia Congregation. Some account balances at the financial institutions are insured by the Federal Deposit Insurance Corporation up to $250,000. At June 30, 2012, the College's uninsured cash balances total $4,331,842.

Promises to give have concentrations of credit risk as they are due from individuals and organizations primarily from Tennessee.

NOTE H - INVESTMENTS

Equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the Statement of Financial Position. Gains and losses are included in the change in net assets in the accompanying Statement of Activities. Investments in stocks and bonds, which are listed on national securities exchanges, quoted on NASDAQ or on the over-the-counter market are valued at the last reported sales price, or in the absence of a recorded sale, at the value between the most recent bid and asked prices. Investments without readily determinable fair values are carried at estimated fair value. Gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations.

FASB ASC 820-10 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market prices observability used in measuring fair value.

This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level I - Quoted market prices are available in active market for identical assets or liabilities as of the reporting date.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level II input could result in the Level II measurement becoming a Level III measurement.

Level III - Pricing inputs are unobservable and shall be used to measure fair value to the extent that observable inputs are not available. The inputs into the determination of fair value are based upon the best information available and require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

NOTE H - INVESTMENTS (continued)

The following is the fair value measurement of investments measured on a recurring basis at June 30, 2012:

June 30, 2012	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)
Cash	$ 319,430	$ 319,430
Bond Funds	3,200,258	3,200,258
Mutual Funds	4,900,004	4,900,004
Total Assets	$ 8,419,692	$ 8,419,692

Investments have been allocated to the net asset classification for presentation in the statements of financial position. Investments consist of the following as of June 30, 2012:

	Fair Value
Unrestricted	$ 4,421,745
Temporarily Restricted	1,119,529
Permanently Restricted	2,878,418
	$ 8,419,692

Investment income, net is composed of the following:

Unrealized losses on marketable securities	$ (175,900)
Realized loss on marketable securities	(32)
Dividends and interest income	256,178
	$ 80,246

The College shares common investment accounts with other schools controlled by the St. Cecilia Congregation pooled together into a unifund. Realized and unrealized gains and losses from securities are allocated quarterly to the unifund.

NOTE I - OPERATING LEASE OBLIGATIONS

The College has several lease agreements for copier equipment for various terms. The leases currently call for monthly rental payments with additional charges per copy.

For the year ended June 30, 2012, the total copier expense was approximately $36,691.

Future minimum lease payments are as follows:

Years Ending June 30,	Amount
2013	$ 35,384
2014	21,375
	$ 56,759

NOTE J - OPERATING EXPENSES

Operating expenses, by natural classification, for the year ended June 30, 2012 were:

Salaries and Wages	$ 5,947,892
Payroll Taxes and Benefits	823,177
Supplies	401,943
Repairs and Maintenance	295,519
Depreciation	252,749
Utilities	140,569
Contracted Services	88,802
Other	87,643
Provision for Bad Debts	78,155
Refreshments	77,685
Testing Expenses	73,768
Advertising	70,154
Insurance	62,089
Travel and Entertainment	61,638
Legal and Professional	51,268
Membership Dues and Subscriptions	51,072
Conferences and Speakers	38,452
Other Fundraising Expenses	37,951
Security	36,127
Postage	34,485
Online Computer Services	20,898
Recruiting	20,147
Graduation Expenses	16,646
Bank Service Charges and Credit Card Fees	3,574
Rental Fees	2,700
Accreditation	954
Interest	49
Total Expenses	$ 8,776,106

NOTE K - RESTRICTIONS ON NET ASSETS

Unrestricted net assets at June 30, 2012 consist of:

Operations	$ 3,334,204
Plant Assets	3,432,788
Quasi (Board Designated):	
Scholarship Endowments	323,807
Sister Education Endowment	4,102,937
	$ 11,193,736

NOTE K - RESTRICTIONS ON NET ASSETS (continued)

Temporarily restricted net assets at June 30, 2012 are available for the following purposes:

Available for Financial Aid	$ 23,626
Scholarship Endowments	872,302
General Endowment	292,318
Capital Campaign	
Nursing Building	3,567,229
General Campaign	80,246
Nursing Program	114,469
Catechetical Program	16,146
Other	20,040
	$ 4,986,376

Permanently restricted net assets consist of the following at June 30, 2012:

General Endowment	$ 1,217,823
Scholarship Endowments	1,660,595
	$ 2,878,418

Net assets released from restrictions during the year were comprised of the following:

General Endowments	$ 23,349
Financial Aid	
Scholarship Endowments	92,925
Other	4,100
Nursing Program	90,000
General Campaign Expenses	107,107
Catechetical Program	19,862
Other	39,606
	$ 376,949

NOTE L - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment - at cost, less accumulated depreciation:

Buildings	$ 3,404,164
Buildings and Land Improvements	627,340
Construction in Progress	1,225,173
Equipment and Furnishings	1,497,926
Library	747,614
	7,502,217
Less: Accumulated Depreciation	4,069,429
	$ 3,432,788

Legal title in all land occupied by the College is vested in St. Cecilia Congregation.

NOTE M - SCHOLARSHIP ALLOWANCE

Scholarship allowances by classification, for the year ended June 30, 2012 were as follows:

Pell Grants	$ 722,879
Supplemental Education Opportunity Grants	43,392
Scholarships - Dominican Sisters	1,358,982
- Other	406,181
	$ 2,531,434

NOTE N - CONCENTRATION OF CONTRIBUTIONS

The College received approximately 12% of its unrestricted revenues and gains from private gifts and grants. A change in the amount of gifts and grants received would ultimately affect operating results.

NOTE O - GOVERNMENT GRANTS AND OTHER PROGRAMS OF STUDENT FINANCIAL ASSISTANCE

Federal financial aid by classification for the year ended June 30, 2012 is as follows:

	FSEOG	FWS	PELL	TOTAL
Government Funds Received	$ 44,971	$ 38,967	$ 722,879	$ 806,817
Institutional Match	14,464	12,989	-	27,453
Administrative Cost Allowance	(1,579)	-	-	(1,579)
Student Financial Awards	$ 57,856	$ 51,956	$ 722,879	$ 832,691

The College received 8.7% of its total unrestricted revenues from federal financial aid programs.

NOTE P - RELATED PARTY

The Dominican Sisters of St. Cecilia Congregation are a Catholic pontifical congregation located in Nashville, Tennessee, founded in 1860. The Congregation owns and administers various academic institutions across the United States providing students an education based in Christian principles and tradition. In addition, the Congregation owns and operates four convents located in Tennessee and Alabama. The St. Cecilia Congregation owns and operates certain educational institutions and convents which it both controls and has an economic interest. These financial statements only include the activities of the College.

The St. Cecilia Congregation operates three schools (Overbrook School, St. Cecilia Academy and Aquinas College) located on the Dominican Campus. The Congregation has determined that certain administration functions should be shared by all three schools. Aquinas College paid $1,236,092 during the year ended June 30, 2012 for fund-raising, alumni development, plant maintenance, and business office services.

NOTE Q - FUNDRAISING COSTS

Fundraising costs incurred by the College in 2012 totaled $192,961. These costs relate primarily to planned giving, annual fund, development, and the capital campaign.

The Dominican Campus has collectively started a campaign to raise funds based on each of the three school's strategic planning process and facilities assessment. As a result of the strategic planning process the College has identified the need for funds for a residence hall, a new academic building, renovation of the existing building, and to increase the endowment.

NOTE R - ENDOWMENT

The College's endowment consists of approximately 28 individual funds, including 25 donor-restricted funds and 3 funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowments funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based upon the existence or absence of donor imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the State of Tennessee, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The net accumulated appreciation of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence described in UPMIFA.

In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the College and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources available to the College
(7) The investment policies of the College

NOTE R - ENDOWMENT (continued)

The College's endowments by net asset class at June 30, 2012, in total and by type of endowment fund, showing donor-restricted endowment funds separately from board designated endowment funds are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted general endowment funds	$ -	$ 292,318	$ 1,217,823	$ 1,510,141
Donor-restricted scholarship endowment funds	-	872,302	1,660,595	2,532,897
Board designated sisters education endowment funds	4,102,937	-	-	4,102,937
Board designated scholarship endowment funds	323,807	-	-	323,807
Total funds	$ 4,426,744	$ 1,164,620	$ 2,878,418	$ 8,469,782

Changes in endowment assets for the year ended June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, June 30, 2011	$ 4,593,813	$ 1,264,479	$ 2,852,336	$ 8,710,628
Dividend and interest income (during year)	114,802	101,535	-	216,337
Net appreciation (depreciation) (realized and unrealized)	(90,779)	(85,120)	-	(175,899)
Contributions and additions to endowments	7,200	-	26,082	33,282
Appropriation of endowment assets for expenditure	(185,542)	(23,349)	-	(208,891)
Appropriation of scholarship endowment assets for expenditure	(12,750)	(92,925)	-	(105,675)
Endowment assets, June 30, 2012	$ 4,426,744	$ 1,164,620	$ 2,878,418	$ 8,469,782

Permanently Restricted Net Assets	2012
(1) The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation	$ 2,878,418
Total endowment funds classified as permanently restricted net assets	$ 2,878,418
Temporarily Restricted Net Assets	
(1) Term endowment funds	$ -
(2) The portion of perpetual endowment funds subject to a time restriction:	
Without purpose restrictions	292,318
With purpose restrictions	872,302
Total endowment funds classified as temporarily restricted net assets	$ 1,164,620

Endowment and Other Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the College to retain as a fund of perpetual duration. No deficiencies of this nature are reported in unrestricted net assets as of June 30, 2012.

NOTE R - ENDOWMENT (continued)

Endowment - Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that at least meets the price and yield results of the S&P 500 index for Equity Funds and Barclays Capital Aggregate Bond index for Bond Funds while assuming a low level of investment risk. The College expects its endowment funds, over time, to provide an average rate of return of approximately 7 percent annually. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that normally places an emphasis on equity-based and income-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment Spending Policy - General Endowment

The College has a policy of appropriating for quarterly distribution a maximum of 1 percent of its general endowment fund's average fair value over the preceding 12 quarters. Accordingly, over the long term, the College expects the current spending policy to allow its general endowment to grow at least 3 percent annually. In establishing this policy, the College considered the long-term expected return on its general endowment. This is consistent with the College's objective to maintain the purchasing power of the general endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Under the College's spending policy on the general endowment and quasi-endowment, the Board approved $208,891 to be applied to the operating budget for fiscal year 2012.

The College also has a policy of transferring from its board-designated endowment funds an amount equal to the operating loss, if any, of the previous fiscal year. In fiscal year 2012 no such withdrawal was needed.

Endowment Spending Policy - Scholarship Endowment

The College recently adopted a policy of appropriating for distribution each year a maximum of 5 percent of the scholarship endowment fund's average fair value over the 3 preceding calendar year end fund values. In establishing this policy, the College considered the long-term expected return on its scholarship endowments. Accordingly, over the long term, the College expects the current spending policy to allow its scholarship endowment to grow at an average of at least 2 percent annually. This is consistent with the College's objective to maintain the purchasing power of the scholarship endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The College appropriated $105,675 from the scholarship endowments for the fiscal year 2012.

NOTE S - SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 15, 2012, which is the date the financial statements were available to be issued. On July 1, 2012 the College entered into an agreement to renovate and lease space for student housing. The initial lease term expires on July 31, 2013, and calls for monthly lease payments of $7,921. As part of the lease the College paid for one time set up costs of $45,000 in July 2012.

AQUINAS COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the student financial aid activity of Aquinas College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Because the Schedule presents only a selected portion of the operations of Aquinas College, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Aquinas College.

NOTE B - FEDERAL EXPENDITURES

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education:		
Federal Supplemental Educational Opportunity Grant Program	84.007	$ 44,971
Federal Direct Student Loans	84.268	4,556,461
ARRA - Federal Work-Study Program	84.033	38,967
ARRA - Federal Pell Grant Program	84.063	722,879
Total Expenditures of Federal Awards		$ 5,363,278

See Notes to Financial Statements

AQUINAS COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENT AUDIT

Prior year findings :

Reportable conditions 2011-01

Condition: CFO reconciled and had signature authority over some new money market accounts.

Status: Segregation of duties are currently being followed.

Reportable conditions 2011-02

Condition: Summer cash receipts were not deposited in a timely manner.

Status: Procedures are currently being followed.

DEPARTMENT OF EDUCATION

FINDINGS - INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Prior year findings :

None

GRANNIS
& ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Directors
Aquinas College
Nashville, Tennessee

We have audited the financial statements of Aquinas College (a Tennessee nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Aquinas College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Aquinas College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Aquinas College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Murfreesboro, Tennessee

November 15, 2012

GRANNIS
& ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
Aquinas College
Nashville, Tennessee

Compliance

We have audited Aquinas College's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Aquinas College's major federal programs for the year ended June 30, 2012. Aquinas College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Aquinas College's management. Our responsibility is to express an opinion on Aquinas College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Aquinas College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Aquinas College's compliance with those requirements.

In our opinion, Aquinas College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-3 and 2012-4.

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Internal Control Over Compliance

Management of Aquinas College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Aquinas College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Aquinas College's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Aquinas College's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Aquinas College's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Murfreesboro, Tennessee
November 15, 2012

AQUINAS COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Aquinas College.
2. No instances of noncompliance material to the financial statements of Aquinas College, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
3. Two significant deficiencies relating to the audit of the major federal award programs are reported in the report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133. No material weaknesses are reported.
4. The auditors' report on compliance for the Student Financial Aid Cluster expresses an unqualified opinion on all major federal programs.
5. Audit findings that are required to be reported in accordance with OMB Circular A-133 are reported in this Schedule.
6. The programs tested as major programs included: Federal Pell Grant Program (84.063), Federal Supplemental Educational Opportunity Grant Program (84.007), Federal Work-Study Program (84.033), Federal Direct Student Loans (84.268).
7. The threshold used for distinguishing between Type A and B programs was $300,000.
8. Aquinas College qualified as a low-risk auditee.

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT
DEPARTMENT OF EDUCATION

2012-01 Financial Aid Director lacks experience

Condition: New Financial Aid Director was hired in April 2012 and has little or no experience in the student financial aid process.

Criteria: The Financial Aid Director should have a minimum amount of experience and knowledge in the student financial aid process.

Effect: Untrained staff could cause the SFA Office to operate in a critical state.

Cause: Lack of experience and knowledge in financial aid.

Recommendation: SFA Office personnel should have minimum SFA experience and ongoing SFA training.

Response: We concur with our auditor's findings and the institution is currently training staff and has hired a consultant for additional assistance.

2012-02 Pell Awards Reconciliation with Common Origination Disbursement (COD) Website

Condition: SFA Office credits student's account for Pell before reconciling with COD website.

Criteria: Internal controls should be in place that reconcile funds with COD before crediting the students' accounts.

Effect: Failure to not reconcile could cause over awards to be credited to students' accounts and drawdown of incorrect amount of Pell.

Cause: No procedures in place to reconcile to COD website prior to crediting the students' accounts.

Recommendation: SFA Office should verify Pell with COD prior to applying funds to the students' accounts.

Response: We concur with the internal control issue, but plan a different course of action to address the deficiency. The Financial Aid Office plans to work with the consultants to automate and standardize financial aid process, including awarding of Federal Pell Grants. By utilizing the systematic operations through the student information system, all awards can be made according to the federal awarding schedule and minimize the instances of an over award to the student.

2012-03 Federal Direct Student Loan Program-CFDA No. 84.268 - Overpayment

Condition: Student was taking her last semester in the Fall 2011 and was awarded for two subsidized and unsubsidized loans for the semester instead of the loans being prorated.

Criteria: Direct Student Loan annual limits must be reduced when a student's remaining period of study is shorter than an academic year.

	Questioned Costs
Effect: One student was over awarded financial aid.	
Population and Sample Size: A sample of 57 Direct Loans totaling $232,125 and $316,000 for Subsidized and Unsubsidized, respectively was selected for audit from a population of 518 Subsidized Loans and 550 Unsubsidized Loans totaling $4,556,461. Two loans with questioned cost totaling $5,250 was found in noncompliance.	$ 5,250.00

Cause: Procedures are in place to verify loan amounts but apparently an error was made.

Recommendation: Aquinas College should be careful to verify annual loan limits when a student's remaining period of study is shorter than an academic year.

Response: We concur with our auditor's findings and procedures are currently being followed.

2012-04 Federal Pell Grant Program-CFDA No. 84.063 - Overpayment

Condition: In the beginning of the semester, one selected student was enrolled to be considered a three-quarter student then dropped a class causing an enrollment status change. The institution awarded the selected student three-quarter Pell for a semester when the student was considered a half-time student.

Criteria: Pell Grant must be awarded per guidelines.

Effect: One student received a Pell Grant overpayment.

Population and Sample Size: A sample of 46 grants totaling $149,887 was selected for audit from a population of 315 grants totaling $722,879. One grant with questioned cost totaling $694 was found in noncompliance.

$ 694.00

Cause: Procedures are in place to verify Pell Grant awards but apparently an error was made.

Recommendation: Aquinas College should be sure to verify Pell awards when a student's enrollment status changes.

Response: We concur with our auditor's findings and procedures are currently being followed.

Total-Department of Education	$ 5,944.00