AQUINAS COLLEGE

FINANCIAL STATEMENTS

Year Ended June 30, 2006

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Grannis & Associates, P.C.
Certified Public Accountants
515 West Burton Street
Murfreesboro, TN 37130
Phone 615/895-1040 Fax 615/849-8584

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, 2006, 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, 2006, 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
October 4, 2006

AQUINAS COLLEGE

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2006

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash	$ 17,008	$ 35,848	$ -	$ 52,856
Accounts receivable	118,848	-	-	118,848
Unconditional promises to give, net	247,964	29,167	63,151	340,282
Bookstore inventory	72,224	-	-	72,224
Prepaid expenses	11,166	-	-	11,166
Investments	6,064,670	973,229	2,599,595	9,637,494
Property and equipment, net	2,171,436	-	-	2,171,436
Total Assets	$ 8,703,316	$ 1,038,244	$ 2,662,746	$ 12,404,306

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Liabilities				
Accounts payable and accrued expenses	$ 148,248	$ -	$ -	$ 148,248
Deferred revenues	381,076	-	-	381,076
Note payable	146,764	-	-	146,764
Lease payable	3,944	-	-	3,944
Total Liabilities	680,032	-	-	680,032
Net Assets	8,023,284	1,038,244	2,662,746	11,724,274
Total Liabilities and Net Assets	$ 8,703,316	$ 1,038,244	$ 2,662,746	$ 12,404,306

AQUINAS COLLEGE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Reclassifications				
Gross tuition and fees	$ 7,556,549	$ -	$ -	$ 7,556,549
Less: scholarship allowance	(1,670,021)	-	-	(1,670,021)
Net Tuition and Fees	5,886,528	-	-	5,886,528
Private gifts and grants	1,194,540	218,918	92,287	1,505,745
Government grants	-	714,635	-	714,635
Sales and services of auxiliary enterprises	408,347	-	-	408,347
Investment income, net	470,480	127,253	-	597,733
Other revenue	43,200	-	-	43,200
Total Revenues and Gains	8,003,095	1,060,806	92,287	9,156,188
Net assets released from restrictions	1,080,028	(1,080,028)	-	-
Total Revenues, Gains and Reclassifications	9,083,123	(19,222)	92,287	9,156,188
Expenses				
Instruction	2,950,361	-	-	2,950,361
Academic support	939,601	-	-	939,601
Student services	774,531	-	-	774,531
Institutional support	2,542,462	-	-	2,542,462
Operation and maintenance of physical plant	1,276,893	-	-	1,276,893
Auxiliary enterprises	391,469	-	-	391,469
Total Expenses	8,875,317	-	-	8,875,317
Change in Net Assets	207,806	(19,222)	92,287	280,871
Net Assets, Beginning of Year	7,815,478	1,057,466	2,570,459	11,443,403
Net Assets, End of Year	$ 8,023,284	$ 1,038,244	$ 2,662,746	$ 11,724,274

See Notes to Financial Statements

AQUINAS COLLEGE

STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

Cash Flows from Operating Activities	
Increase in net assets	$ 280,871
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	250,887
Loss on disposal of assets	2,939
Change in allowance for doubtful accounts	46,537
Net unrealized gains on investments	(307,395)
Net realized gains on investments	(8,214)
Change in assets and liabilities:	
Increase in accounts receivable	(39,357)
Increase in unconditional promises to give	(204,636)
Increase in bookstore inventory	(6,201)
Decrease in other assets	454
Decrease in accounts payable and accrued expenses	(18,489)
Decrease in deferred revenues	(8,448)
Contributions restricted for long-term purposes:	
Unconditional promises to give	47,786
Amortization of discount on unconditional promises to give	29,040
Net Cash Provided by Operating Activities	65,774
Cash Flows from Investing Activities	
Purchases of property and equipment	(265,302)
Proceeds on sales of investments	333,981
Purchases of investments	(464,216)
Net Cash Used By Investing Activities	(395,537)
Cash Flows from Financing Activities	
Repayments of lease payable	(18,617)
Repayments of note payable	(53,867)
Net Cash Used by Financing Activities	(72,484)
Net Decrease in Cash	(402,247)
Cash at Beginning of Year	455,103
Cash at End of Year	$ 52,856

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Interest paid	$ 10,119

See Notes to Financial Statements

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Aquinas College (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.

Nature of Purpose

Aquinas College is a Tennessee nonprofit corporation chartered on June 24, 1970. Its purpose is to operate a private Catholic institution of higher education.

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Statement of Financial Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations.* Under those provisions, net assets and revenues, gains, and losses are classified based on the absence or existence and nature of donor-imposed restrictions 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 can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

> Permanently restricted net assets - Net assets subject to donor-imposed stipulations that may 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

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 in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made,* 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 School is exempt from unemployment compensation.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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.

Inventories

Inventories are stated at the lower of cost or market determined by the first-in, first-out method and represent current, usable textbooks available for application to ongoing operations.

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.

Equipment and Improvements

The College capitalizes all expenditures for property and equipment in excess of $500. Equipment and improvements are recorded at cost or at estimated fair market value at date of gift donated. Depreciation is provided over the estimated useful lives of equipment and improvements on a straight-line basis. Depreciation expense for the year was $250,887.

Investments

Investments in marketable securities are stated at fair market value. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Revenue Recognition

Tuition revenue is recognized in the school year to which it is applicable. Tuition collected in advance is deferred on the balance sheet and reported under liabilities as deferred revenues.

Advertising

The College follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the year was $95,598.

NOTE B - UNCONDITIONAL PROMISES TO GIVE

Unrestricted promises to give expected to be collected in:		
Less than one year	$	138,757
One to five years		221,712
		360,469
Less allowance for uncollectible promises to give		(72,094)
Less discount on promises to give		(40,411)
Net unconditional promises to give	$	247,964
Temporarily restricted promises to give expected to be collected in:		
Less than one year	$	29,167
One to five years		-
		29,167
Less allowance for uncollectible promises to give		-
Net unconditional promises to give	$	29,167
Permanently restricted promises to give expected to be collected in:		
Less than one year	$	77,400
One to five years		6,000
		83,400
Less allowance for uncollectible promises to give		(16,680)
Less discount on promises to give		(3,569)
Net unconditional promises to give	$	63,151

NOTE C - BENEFICIAL INTEREST IN PERPETUAL TRUST

The College is the beneficiary of a trust created by a donor, the assets of which are not in the possession of the College. The College has legally enforceable rights and claims to such assets, including the sole right to income therefrom. Net realized and unrealized gains (losses) related to the beneficial interest are reported as changes in temporarily restricted net assets based on donor restrictions. The historical cost and fair value at June 30, 2006 of the beneficial interest were as follows:

	Cost	Fair Value
The Community Foundation	$ 938,080	$ 985,219

NOTE D - 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. The College paid $40,918 during the year ended June 30, 2006.

NOTE E - CONTRIBUTED SERVICES

For the fiscal year ended June 30, 2006, the services contributed to the College by the religious members of the faculty and others had a net value of $505,893. 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 F - 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. The balances at the financial institutions are insured by the Federal Deposit Insurance Corporation up to $100,000. At June 30, 2006, the College's uninsured cash balances total $451,843.

NOTE G - INVESTMENTS

Investments (at fair market value) are comprised of the following as of June 30, 2006:

	Carrying Amount
Unrestricted	$ 6,064,670
Temporarily Restricted	973,229
Permanently Restricted	2,599,595
	$ 9,637,494
Investments are composed of the following:	
Cash and cash equivalents	$ 742,040
Mutual Funds	7,907,962
Bonds	987,492
	$ 9,637,494
Investment income is composed of the following	
Unrealized Gains	$ 307,395
Realized Gains	8,214
Interest and dividends	282,124
	$ 597,733

The College shares common investment accounts with other schools controlled by the St. Cecilia Congregation pooled together into a unifund.

NOTE H - OPERATING LEASE OBLIGATIONS

The College entered into a 60-month lease agreement for copier equipment in September 2000. The lease currently calls for monthly rental payments with additional charges per copy. For the year ended June 30, 2006, the expense was approximately $44,693.

NOTE I - OPERATING EXPENSES

Operating expenses, by natural classification, for the year ended June 30, 2006 were:

Salaries and Wages	$ 4,735,583
Payroll Taxes and Benefits	623,252
Books	341,214
Supplies	290,012
Travel/Entertainment	21,489
Interest	10,119
Depreciation	250,887
Utilities	150,853
Contracted Services	357,784
Repairs and Maintenance	189,803
Management Fee - Institute for Professional Development	800,532
Advertising	95,598
Rental Fees	325,683
Insurance	77,117
Other	605,391
Total Expenses	$ 8,875,317

NOTE J - RESTRICTIONS ON NET ASSETS

Unrestricted net assets at June 30, 2006 consist of:

Operations	$ -
Plant Assets	2,020,728
Board designated:	
Scholarships	318,522
Special Campaign	5,608,964
Endowment	75,070
	$ 8,023,284

Temporarily restricted net assets at June 30, 2006 are available for the following purposes:

Available for Scholarships	$ 810,965
Nursing Program	221,542
Other	5,737
	$ 1,038,244

Permanently restricted net assets consist of the following at June 30, 2006:

General Endowment	$ 1,464,762
Scholarship Endowment	1,197,984
	$ 2,662,746

NOTE J - RESTRICTIONS ON NET ASSETS (continued)

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

Financial Aid	$ 67,499
Nursing Program	287,585
Federal Financial Aid - Work Study	54,664
- Pell Grants	607,373
- SEOG	52,598
Other	10,309
	$ 1,080,028

NOTE K - PROPERTY AND EQUIPMENT

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

Buildings	$ 2,665,462
Buildings and Land Improvements	595,927
Equipment and Furnishings	1,394,879
Library	656,678
	5,312,946
Less: Accumulated Depreciation	3,141,510
	$ 2,171,436

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

NOTE L - SCHOLARSHIP ALLOWANCE

Scholarship allowances by classification, for the year ended June 30, 2006 were as follows:

Pell Grants	$ 607,373
Supplemental Education Opportunity Grants	65,747
Scholarships - Dominican Sisters	622,208
- Other	374,693
	$ 1,670,021

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

Federal financial aid by classification for the year ended June 30, 2006 is as follows:

	FSEOG	FWS	PELL	TOTAL
Government Funds Received	$ 52,598	$ 54,664	$ 607,373	$ 714,635
Institutional Match	16,437	17,082	-	33,519
Administrative Cost Allowance	(3,287)	(3,416)	-	(6,703)
Student Financial Awards	$ 65,748	$ 68,330	$ 607,373	$ 741,451

The College received 7.9% ($714,635 total aid divided by $9,083,123 total revenues and gains-unrestricted) of its total unrestricted revenues from federal financial aid programs.

NOTE N - NOTE PAYABLE

At June 30, 2006 Aquinas College's prorata portion of a note payable to St. Cecilia Congregation was $146,764. The note bears interest at 5.1% and is payable in monthly installments of $5,314 including interest. Maturities by year are as follows:

June 30,	
2007	$ 57,615
2008	60,623
2009	28,526
	$ 146,764

NOTE O - LEASE PAYABLE

At June 30, 2006 the lease payable to First American for equipment had a balance on the lease of $3,943. The lease has an effective interest rate of 3.5% and is payable in monthly installments of $1,998 including interest. Maturities by year on capital leases:

June 30,	
2007	$ 3,943

NOTE P - CONCENTRATION OF CONTRIBUTIONS

The College received approximately 13% 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 Q - OTHER REVENUE

The College is the lessor of its athletic fields under an operating leases expiring July 31, 2007. For the year ended June 30, 2006, the College received $25,200 in lease revenue and is included in other income.

Following is a summary of property on or held for lease at June 30, 2006:

Athletic fields	$ 117,058
Less: accumulated depreciation	(92,591)
	$ 24,467

Minimum future rentals to be received on non-cancelable leases as of June 30, 2006, for the next year is:

Year Ending June 30, 2007	$ 25,200

NOTE R - COMMITMENTS

Institute for Professional Development

Effective September 1, 2000, the College entered into an agreement with the Institute for Professional Development (IPD) to open an offsite campus focusing on working, adult students. IPD receives 50% of tuition revenue (a management fee) in exchange for providing marketing expertise and administrative support.

The agreement shall remain in effect for a period of ten (10) academic years (September 1, 2001 through August 31, 2010), and shall automatically be renewed on August 31, 2010, for an additional five (5) academic year period; unless terminated based upon certain agreed upon terms.

The College pays for all operating expenses for the offsite campus including a management fee of $800,532 for the year ended June 30, 2006. In future years, the contract has certain provisions that reduces the amount of the management fee to IPD over the 10 year contract period.

NOTE S - RELATED PARTY

The Dominican Sisters of St. Cecilia Congregation are a Catholic pontifical congregation located in Nashville, Tennessee numbering approximately 212 sisters, 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 three 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 $1,103,779 during the year ended June 30, 2006 for fund-raising, alumni development, plant maintenance, and business office services.