

**AQUINAS COLLEGE**

**FINANCIAL STATEMENTS**

**Years Ended June 30, 2017 and 2016**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Aquinas College  
Nashville, Tennessee

We have audited the accompanying financial statements of Aquinas College (a nonprofit organization), 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.

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 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.

*Grannis & Associates, P. C.*

Murfreesboro, Tennessee  
October 11, 2017

## ASSETS

	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cash	\$ 5,653,079	\$ 2,999,311	\$ -	\$ 8,652,390
Accounts receivable, net	37,411	-	-	37,411
Unconditional promises to give, net	-	6,675	-	6,675
Prepaid expenses	65,180	-	-	65,180
Investments	689,615	1,958,594	2,773,263	5,421,472
Property and equipment, net	11,571,212	-	-	11,571,212
<b>Total Assets</b>	<u>\$ 18,016,497</u>	<u>\$ 4,964,580</u>	<u>\$ 2,773,263</u>	<u>\$ 25,754,340</u>

## LIABILITIES AND NET ASSETS

<u>Liabilities</u>				
Accounts payable and accrued expenses	\$ 2,229,221	\$ -	\$ -	\$ 2,229,221
Deferred revenues and student deposits	158,259	-	-	158,259
<b>Total Liabilities</b>	<u>2,387,480</u>	<u>-</u>	<u>-</u>	<u>2,387,480</u>
<u>Net Assets</u>	<u>15,629,017</u>	<u>4,964,580</u>	<u>2,773,263</u>	<u>23,366,860</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 18,016,497</u>	<u>\$ 4,964,580</u>	<u>\$ 2,773,263</u>	<u>\$ 25,754,340</u>

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

**AQUINAS COLLEGE**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2017 and 2016**

**ASSETS**

	<b>2017</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cash	\$ 490,241	\$ 1,416,702	\$ -	\$ 1,906,943
Accounts receivable, net	64,292	-	-	64,292
Unconditional promises to give, net	-	393,197	-	393,197
Prepaid expenses	71,332	-	-	71,332
Investments	265,690	1,937,509	2,779,963	4,983,162
Property and equipment, net	13,731,610	-	-	13,731,610
<b>Total Assets</b>	<b><u>\$ 14,623,165</u></b>	<b><u>\$ 3,747,408</u></b>	<b><u>\$ 2,779,963</u></b>	<b><u>\$ 21,150,536</u></b>

**LIABILITIES AND NET ASSETS**

<b><u>Liabilities</u></b>				
Accounts payable and accrued expenses	\$ 857,092	\$ -	\$ -	\$ 857,092
Deferred revenues and student deposits	66,397	-	-	66,397
Note payable	400,000	-	-	400,000
<b>Total Liabilities</b>	<b><u>1,323,489</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,323,489</u></b>
<b><u>Net Assets</u></b>	<b><u>13,299,676</u></b>	<b><u>3,747,408</u></b>	<b><u>2,779,963</u></b>	<b><u>19,827,047</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 14,623,165</u></b>	<b><u>\$ 3,747,408</u></b>	<b><u>\$ 2,779,963</u></b>	<b><u>\$ 21,150,536</u></b>

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

AQUINAS COLLEGE

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2017 and 2016

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Revenues, Gains, and Reclassifications</u>				
Gross tuition and fees	\$ 6,117,265	\$ -	\$ -	\$ 6,117,265
Less: scholarship allowance	(2,542,313)	-	-	(2,542,313)
<b>Net Tuition and Fees</b>	<b>3,574,952</b>	<b>-</b>	<b>-</b>	<b>3,574,952</b>
Private gifts and grants	1,346,003	459,734	6,700	1,812,437
Government grants	389,525	-	-	389,525
Investment income, net	59,900	585,341	-	645,241
Sales and services of auxiliary enterprises	613,207	-	-	613,207
Loss on disposal of fixed assets	(655,007)	-	-	(655,007)
Other revenue	222,988	-	-	222,988
<b>Total Revenues and Gains</b>	<b>5,551,568</b>	<b>1,045,075</b>	<b>6,700</b>	<b>6,603,343</b>
Net assets released from restrictions	2,262,247	(2,262,247)	-	-
<b>Total Revenues, Gains and Reclassifications</b>	<b>7,813,815</b>	<b>(1,217,172)</b>	<b>6,700</b>	<b>6,603,343</b>
<u>Expenses</u>				
Programs:				
Education and general				
Instruction	3,533,437	-	-	3,533,437
Academic support	1,368,837	-	-	1,368,837
Student services	1,354,454	-	-	1,354,454
Auxiliary enterprises	453,998	-	-	453,998
Institutional support	1,998,126	-	-	1,998,126
Operation and maintenance of physical plant	1,434,304	-	-	1,434,304
<b>Total Expenses</b>	<b>10,143,156</b>	<b>-</b>	<b>-</b>	<b>10,143,156</b>
Change in Net Assets	(2,329,341)	(1,217,172)	6,700	(3,539,813)
Net Assets, Beginning of Year	15,629,017	4,964,580	2,773,263	23,366,860
Net Assets, End of Year	<u>\$ 13,299,676</u>	<u>\$ 3,747,408</u>	<u>\$ 2,779,963</u>	<u>\$ 19,827,047</u>

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

2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Revenues, Gains, and Reclassifications</u>				
Gross tuition and fees	\$ 6,720,618	\$ -	\$ -	\$ 6,720,618
Less: scholarship allowance	(2,227,383)	-	-	(2,227,383)
<b>Net Tuition and Fees</b>	<b>4,493,235</b>	<b>-</b>	<b>-</b>	<b>4,493,235</b>
Private gifts and grants	1,026,779	209,301	12,149	1,248,229
Government grants	501,988	-	-	501,988
Investment income, net	37,980	9,160	-	47,140
Sales and services of auxiliary enterprises	393,335	-	-	393,335
Loss on disposal of fixed assets	(32,319)	-	-	(32,319)
Other revenue	227,771	-	-	227,771
<b>Total Revenues and Gains</b>	<b>6,648,769</b>	<b>218,461</b>	<b>12,149</b>	<b>6,879,379</b>
Net assets released from restrictions	5,502,604	(5,502,604)	-	-
<b>Total Revenues, Gains and Reclassifications</b>	<b>12,151,373</b>	<b>(5,284,143)</b>	<b>12,149</b>	<b>6,879,379</b>
<u>Expenses</u>				
Programs:				
Education and general				
Instruction	3,303,192	-	-	3,303,192
Academic support	1,081,628	-	-	1,081,628
Student services	1,129,955	-	-	1,129,955
Auxiliary enterprises	253,061	-	-	253,061
Institutional support	2,528,293	-	-	2,528,293
Operation and maintenance of physical plant	1,122,777	-	-	1,122,777
<b>Total Expenses</b>	<b>9,418,906</b>	<b>-</b>	<b>-</b>	<b>9,418,906</b>
Change in Net Assets	2,732,467	(5,284,143)	12,149	(2,539,527)
Net Assets, Beginning of Year	12,896,550	10,248,723	2,761,114	25,906,387
Net Assets, End of Year	<u>\$ 15,629,017</u>	<u>\$ 4,964,580</u>	<u>\$ 2,773,263</u>	<u>\$ 23,366,860</u>

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

AQUINAS COLLEGE

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

<u>Cash Flows from Operating Activities</u>	<u>2017</u>	<u>2016</u>
(Decrease) Increase in net assets	\$ (3,539,813)	\$ (2,539,527)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	542,615	260,351
Loss on disposal of fixed assets	655,007	32,319
Change in allowance for doubtful accounts	158,725	(66,714)
Change in pledge discount	12,855	(5,917)
Net realized (gains) losses on investments	(202,922)	(4,263,981)
Net unrealized (gains) losses on investments	(311,054)	4,556,797
Change in assets and liabilities:		
(Increase) Decrease in accounts receivable	(85,666)	1,431
(Increase) Decrease in unconditional promises to give	(499,317)	242,117
(Increase) Decrease in prepaid expenses	(6,152)	21,817
Increase in accounts payable and accrued expenses	610,633	69,057
(Decrease) in deferred revenues	(91,862)	(51,799)
Contributions restricted for long-term purposes	(6,700)	(37,826)
<b>Net Cash Used By Operating Activities</b>	<u>(2,763,651)</u>	<u>(1,781,875)</u>
<u>Cash Flows from Investing Activities</u>		
Purchases of property and equipment	(5,340,782)	(7,117,867)
Purchases of investments	(2,088,487)	(13,191,082)
Proceeds on sales of investments	<u>3,040,773</u>	<u>23,967,770</u>
<b>Net Cash Provided (Used) By Investing Activities</b>	<u>(4,388,496)</u>	<u>3,658,821</u>
<u>Cash Flows from Financing Activities</u>		
Borrowings on note payable	400,000	-
Borrowings on line of credit	-	2,130,000
Repayment on line of credit	-	(2,130,000)
Contributions restricted for long-term purposes	<u>6,700</u>	<u>37,826</u>
<b>Net Cash Provided By Financing Activities</b>	<u>406,700</u>	<u>37,826</u>
Net Increase (Decrease) in Cash	(6,745,447)	1,914,772
Cash at Beginning of Year	<u>8,652,390</u>	<u>6,737,618</u>
Cash at End of Year	<u>\$ 1,906,943</u>	<u>\$ 8,652,390</u>
<u>Supplemental Disclosure of Cash Flow</u>		
Interest paid	\$ 1,465	\$ 4,714
Non-Cash Transactions		
Included in accounts payable related to construction in progress	\$ -	\$ 1,982,762

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



## AQUINAS COLLEGE

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

#### 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. See Note W regarding the reconfiguration of the College.

The College is part of the Dominican Campus and is located on 83 wooded acres in Nashville, Tennessee. The College is 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.

## AQUINAS COLLEGE

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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

##### Use of Estimates

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,

##### 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 is exempt for unemployment compensation purposes.

##### 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 Returns of Organization Exempt From Income Tax (Form 990) are subject to examination by the IRS, generally for three years after they were filed.

AQUINAS COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 years ended June 30, 2017 and 2016 was \$542,615 and \$260,351, respectively.

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 was \$96,117 and \$172,272 for the years ended June 30, 2017 and 2016, respectively.

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 housing, 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.

AQUINAS COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 are summarized as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
<u>June 30, 2017</u>		
Cash	\$ 1,906,943	\$ 1,906,943
Unconditional promises to give, net	393,197	393,197
<u>June 30, 2016</u>		
Cash	\$ 8,652,390	\$ 8,652,390
Unconditional promises to give, net	6,675	6,675

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:

	<u>2017</u>	<u>2016</u>
Student accounts receivable	\$ 22,957	\$ 81,741
Other accounts receivable	64,292	37,411
Allowance for doubtful accounts - student accounts receivable	<u>(22,957)</u>	<u>(81,741)</u>
Net accounts receivable	<u>\$ 64,292</u>	<u>\$ 37,411</u>

Included in other accounts receivable is \$42,683 and \$24,412 due from the Dominican Campus at June 30, 2017 and 2016, respectively.

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%.

**AQUINAS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017 and 2016**

**NOTE C - UNCONDITIONAL PROMISES TO GIVE (continued)**

Temporarily restricted promises to give expected to be collected in:	2017	2016
Less than one year	\$ 502,200	\$ 2,883
One to five years	<u>6,000</u>	<u>6,000</u>
	508,200	8,883
Less allowance for uncollectible promises to give	(101,640)	(1,700)
Less discount on promises to give	<u>(13,363)</u>	<u>(508)</u>
Net unconditional promises to give	<u>\$ 393,197</u>	<u>\$ 6,675</u>

The College has one unconditional promises to give which totals 99% and 99% of the unpaid balance as of June 30, 2017 and 2016, respectively.

**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, 2017 and 2016 of the fund is \$849,497 and \$816,328, respectively.

**NOTE E - RETIREMENT PLAN**

Aquinas College maintains a defined contribution 403(b) Plan (the Plan) for all eligible employees. All full time employees, upon completing one year of service, are eligible to participate in the Plan and be enrolled during quarterly entry points. Effective September 1, 2015, all full-time employees are eligible to participate in the 403(b) Plan regardless of years of service. The Plan encompasses eligible employees of the affiliated entities of St. Cecilia Congregation, Saint Cecilia Academy, Overbrook School, Saint Rose and The Dominican Campus. Participants may make voluntary contributions up to the maximum amount allowable by law under the terms of the Plan. Aquinas College is required to make a mandatory matching contribution to the Plan of up to 1% for those eligible employees with 1 year of service, up to 2% for 2 years and up to 3% for those with 3 or more years of service. During the 2017 and 2016 fiscal years, \$71,880 and \$62,342 was deposited into participants accounts from unrestricted College resources, respectively. Deposits of \$65,380 and \$55,842 were made to the Plan and \$6,500 and \$6,500 was sent directly to The Archdiocese of Philadelphia Plan on behalf of an eligible employee for fiscal years 2017 and 2016, respectively. The Plan is a Non Electing Church Plan therefore, as defined under section 4(b)(2) of ERISA, the Plan is exempt from ERISA Title 1 disclosure requirement.

## AQUINAS COLLEGE

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

#### NOTE F - CONTRIBUTED SERVICES

For the fiscal years ended June 30, 2017 and 2016, the services contributed to the College by the religious members of the faculty and staff had a fair value of \$565,527 and \$530,075, respectively. The calculation of contributed services is based on comparable compensation obtained from surveys of area schools less actual cash stipends paid on behalf of 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. Some account balances at the financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2017 and 2016, the College's uninsured cash balances total \$1,787,221 and \$8,929,786, respectively.

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.

AQUINAS COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE H - INVESTMENTS (continued)

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.

The following is the fair value measurement of investments measured on a recurring basis at June 30, 2017 and 2016:

		Quoted Prices in Active Markets for Identical Assets (Level I)
<u>June 30, 2017</u>	<u>Fair Value</u>	
Cash	\$ 625,008	\$ 625,008
Fixed Income	1,097,964	1,097,964
Mutual Funds	<u>3,260,190</u>	<u>3,260,190</u>
Total Assets	<u>\$ 4,983,162</u>	<u>\$ 4,983,162</u>
 <u>June 30, 2016</u>		
Cash	\$ 139,891	\$ 139,891
Fixed Income	1,635,827	1,635,827
Mutual Funds	<u>3,645,754</u>	<u>3,645,754</u>
Total Assets	<u>\$ 5,421,472</u>	<u>\$ 5,421,472</u>

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, 2017 and 2016:

	2017 <u>Fair Value</u>	2016 <u>Fair Value</u>
Unrestricted	\$ 265,690	\$ 689,615
Temporarily Restricted	1,937,509	1,958,594
Permanently Restricted	<u>2,779,963</u>	<u>2,773,263</u>
	<u>\$ 4,983,162</u>	<u>\$ 5,421,472</u>

Investment income, net is composed of the following:

Unrealized gains (losses) on marketable securities	\$ 311,054	\$ (4,556,797)
Realized gains (losses) on marketable securities	202,922	4,263,981
Dividends and interest income	161,297	344,355
Investment fees	<u>(30,032)</u>	<u>(4,399)</u>
	<u>\$ 645,241</u>	<u>\$ 47,140</u>

The College shared common investment accounts with other schools controlled by the St. Cecilia Congregation pooled together into a unfund. Realized and unrealized gains and losses from securities are allocated quarterly to the unfund. The College separated its investments in the unfund from the other schools during the year ended June 30, 2016.

AQUINAS COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE I - OPERATING LEASE OBLIGATIONS

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

For the years ended June 30, 2017 and 2016, the total copier expense was approximately \$35,690 and \$30,323, respectively.

Future minimum lease payments are as follows:

Year Ending June 30,	Amount
2018	<u>\$ 23,355</u>

The College had a lease for student housing with a monthly lease payment of \$9,103 which expired on July 31, 2017. For the years ended June 30, 2017 and 2016, the total lease expense was approximately \$109,017 and \$100,318, respectively.

On December 1, 2014, the College entered into an agreement to lease 8,122 square feet for a simulation lab. The lease calls for base rent of \$1 for the entire term. The lease expired on August 31, 2017. Estimated fair value of the lease for the years ended June 30, 2017 and 2016 was approximately \$171,211 and \$171,211, respectively and is included in private gifts and grants. The College will no longer utilize this space due to the reconfiguration as disclosed in Note W.

The College entered into a facility use agreement for the Villaggio Betania, owned by the Dominican Sisters of St. Cecilia Congregation, in Bracciano, Italy for the purpose of a study abroad program at the current rate of 50 euros per guest per night. For the years ended June 30, 2017 and 2016 the total expense was approximately \$32,867 and \$79,099, respectively. As a result of the reconfiguration of the College (Note W), the College will no longer offer a study abroad program.



AQUINAS COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE J - OPERATING EXPENSES

Operating expenses, by natural classification, for the years ended June 30, 2017 and 2016 were:

	<u>2017</u>	<u>2016</u>
Salaries and Wages	\$ 6,376,413	\$ 5,525,110
Payroll Taxes and Benefits	890,526	955,962
Depreciation	542,615	260,351
Repairs and Maintenance	345,918	423,535
Supplies	339,625	394,694
Rental Fees	313,511	351,546
Meals and Foodservice	240,255	94,991
Utilities	217,508	175,261
Contracted Services	204,058	222,655
Travel and Entertainment	143,789	240,136
Advertising	96,117	172,272
Security	63,854	67,672
Insurance	63,543	57,219
Other	58,317	107,737
Conferences and Speakers	45,980	65,958
Membership Dues and Subscriptions	42,225	48,025
Online Computer Services	35,678	24,013
Legal and Professional	35,670	40,149
Testing Expenses	22,579	35,213
Recruiting	20,427	54,362
Postage	15,132	18,285
Interest	11,136	-
Graduation Expenses	9,327	17,022
Bank Service Charges and Credit Card Fees	7,488	3,854
Accreditation	1,465	19,422
Other Fundraising Expenses	-	31,439
Provision for Bad Debts	-	12,023
Total Expenses	<u>\$ 10,143,156</u>	<u>\$ 9,418,906</u>

NOTE K - RECLASSIFICATIONS

In prior years the College received donations in the amount of \$434,926 that were previously thought to be permanently restricted endowments. In 2017, the board of directors determined that there was insufficient evidence to conclude that the amount was subject to permanent restriction. Correcting this error decreased permanently restricted net assets by \$434,926, increased temporarily restricted net assets by \$118,221, and increased unrestricted net assets by \$316,705 in the statement of financial position at June 30, 2015. Prior-period financial statements have been restated for these changes.

Certain accounts in the prior year statement of activities have been reclassified for comparative purposes. These reclassifications had no effect on results from operations.

AQUINAS COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE L - RESTRICTIONS ON NET ASSETS

Unrestricted net assets at June 30, 2017 and 2016 consist of:

	<u>2017</u>	<u>2016</u>
Operations	\$ (431,934)	\$ 5,819,611
Plant Assets	13,731,610	9,565,766
Quasi (Board Designated):		
General Endowments	-	243,640
	<u>\$ 13,299,676</u>	<u>\$ 15,629,017</u>

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Financial Aid	\$ 1,567,928	\$ 3,103,055
Scholarship Endowments	1,017,562	1,138,584
General Endowment	653,314	547,313
Time Restriction	387,137	-
Capital Campaign		
Nursing Simulation Lab	2,906	30,154
Adoration Chapel	-	500
General Campaign	200	7,039
Nursing Program	-	7,500
Study of Ethics	50,750	50,750
Catechetical Program	44,476	48,184
Other	23,135	31,501
	<u>\$ 3,747,408</u>	<u>\$ 4,964,580</u>

As part of the reconfiguration (Note W), the College will be unable to use the remaining \$2,906 that is temporarily restricted for the nursing simulation lab.

Permanently restricted net assets consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
General Endowment	\$ 1,096,179	\$ 1,096,179
Scholarship Endowments	1,683,784	1,677,084
	<u>\$ 2,779,963</u>	<u>\$ 2,773,263</u>

AQUINAS COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2017

NOTE L - RESTRICTIONS ON NET ASSETS (continued)

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

	<u>2017</u>	<u>2016</u>
General Endowment	\$ 106,735	\$ 72,118
Financial Aid		
Scholarship Endowments	458,675	242,603
Institutional Aid	1,579,107	1,380,131
Nursing Program	7,500	-
General Campaign	56,655	3,490,488
Nursing Simulation Lab	27,247	-
Adoration Chapel	500	30,000
Catechetical Program	3,733	-
Time Restriction	-	250,000
Other	22,095	37,264
	<u>\$ 2,262,247</u>	<u>\$ 5,502,604</u>

NOTE M - PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Buildings	\$ 15,331,408	\$ 3,935,895
Buildings and Land Improvements	938,910	938,910
Construction in Progress	-	8,986,988
Equipment and Furnishings	1,641,692	1,599,903
Library	707,139	707,139
	18,619,149	16,168,835
Less: Accumulated Depreciation	4,887,539	4,597,623
	<u>\$ 13,731,610</u>	<u>\$ 11,571,212</u>

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

The College completed construction of a new dorm in 2017. Included in Construction in Progress was \$8,727,681 related to this at June 30, 2016. Included in accounts payable at June 30, 2016 was \$1,982,762 in unpaid construction costs.

Included in property and equipment at June 30, 2017 are two modular buildings that have been temporarily idled due to the reconfiguration as discussed in Note W. The net book value of the two modular buildings at June 30, 2017 was \$222,144. Also included in property and equipment is the new dorm that, as a result of the reconfiguration, the College presently does not have plans for full utilization subsequent to the year ended June 30, 2017. The net book value of the dorm at June 30, 2017 was \$11,443,910.

AQUINAS COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE N - SCHOLARSHIP ALLOWANCE

Scholarship allowances by classification, for the years ended June 30, 2017 and 2016 were as follows:

	2017	2016
Pell Grants	\$ 354,167	\$ 456,908
Supplemental Education Opportunity Grants	17,495	19,019
Scholarships - Dominican Sisters	582,081	641,417
- Students	1,588,570	1,110,039
	<u>\$ 2,542,313</u>	<u>\$ 2,227,383</u>

NOTE O - CONCENTRATION OF CONTRIBUTIONS

The College received in the years ended June 30, 2017 and 2016 approximately 24% and 15% of its unrestricted revenues and gains from private gifts and grants, respectively. A change in the amount of gifts and grants received would ultimately affect operating results.

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

Federal financial aid by classification for the year ended June 30, 2017 is as follows:

	FSEOG	FWS	PELL	TOTAL
Government Funds Received	\$ 17,495	\$ 17,863	\$ 354,167	\$ 389,525
Institutional Match	5,832	5,954	-	11,786
Administrative Cost Allowance	-	-	-	-
Student Financial Awards	<u>\$ 23,327</u>	<u>\$ 23,817</u>	<u>\$ 354,167</u>	<u>\$ 401,311</u>

Federal financial aid by classification for the year ended June 30, 2016 is as follows:

	FSEOG	FWS	PELL	TOTAL
Government Funds Received	\$ 19,019	\$ 26,060	\$ 456,909	\$ 501,988
Institutional Match	6,340	8,687	-	15,027
Administrative Cost Allowance	-	-	-	-
Student Financial Awards	<u>\$ 25,359</u>	<u>\$ 34,747</u>	<u>\$ 456,909</u>	<u>\$ 517,015</u>

The College received 7.0% and 7.6% of its total unrestricted revenues from federal financial aid programs in the years ended June 30, 2017 and 2016, respectively.

NOTE Q - 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 and administers and staffs other diocesan or independent schools across the United States and overseas providing students an education based in Christian principles and tradition. 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.

AQUINAS COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE Q - RELATED PARTY (continued)

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 \$501,614 and \$554,487 during the years ended June 30, 2017 and 2016 for contracted services, landscaping, waste removal, utilities and bank fees, respectively.

In accounts payable is \$414 and \$47,967 due to related schools at June 30, 2017 and 2016, respectively.

NOTE R - FUNDRAISING COSTS

Fundraising costs incurred by the College in 2017 and 2016 totaled \$75,606 and \$317,248, respectively.

NOTE S - LINE OF CREDIT

The College had a \$3,000,000 uncommitted line of credit with JP Morgan which expired. Borrowings under the agreement were collateralized by unrestricted investments. Borrowing on the line was limited to a percentage (depending on the type of investment) of available unrestricted investments held at JP Morgan. The balance outstanding on the line of credit at June 30, 2017 and 2016 was \$0.

NOTE T - NOTE PAYABLE

The College's obligation under notes payable consists of the following:	<u>2017</u>	<u>2016</u>
1.5% note payable dated June 2017, interest only payable monthly through June 20, 2020. The College can draw a maximum of \$2,500,000 under the terms of the note. No later than June 20, 2020 the loan converts from interest only at 1.5% to fixed monthly payments at 4% annual interest amortized over a 30 year period. The unamortized balance and any accrued interest is due July 1, 2037. The note is guaranteed by St. Cecilia Congregation and secured by a Deed of Trust on certain real property owned by St. Cecilia Congregation in Washington, DC.	<u>\$ 400,000</u>	<u>\$ -</u>

The future scheduled maturities of long-term debt are as follows:

Years Ending June 30,	<u>Amount</u>
2018	\$ -
2019	-
2020	-
2021	7,044
2022	7,331
Thereafter	<u>385,625</u>
	<u>\$ 400,000</u>

Subsequent to year end the College borrowed an additional \$800,000 under this note. The schedule of maturities above does not include the effect of this subsequent event.

AQUINAS COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE U - ENDOWMENT

The College's endowment consists of approximately 22 donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment 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.

AQUINAS COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE U - ENDOWMENT (continued)

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

The College's endowments by net asset class at June 30, 2017, in total and by type of endowment fund, showing donor-restricted endowment funds separately from board designated endowment funds are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted general endowment funds	\$ -	\$ 653,314	\$ 1,096,179	\$ 1,749,493
Donor-restricted scholarship endowment funds	-	1,017,562	1,683,784	2,701,346
Total funds	<u>\$ -</u>	<u>\$ 1,670,876</u>	<u>\$ 2,779,963</u>	<u>\$ 4,450,839</u>

The College's endowments by net asset class at June 30, 2016, in total and by type of endowment fund, showing donor-restricted endowment funds separately from board designated endowment funds are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted general endowment funds	\$ -	\$ 547,313	\$ 1,096,179	\$ 1,643,492
Donor-restricted scholarship endowment funds	-	1,138,584	1,677,084	2,815,668
Board designated general endowment funds	243,640	-	-	243,640
Total funds	<u>\$ 243,640</u>	<u>\$ 1,685,897</u>	<u>\$ 2,773,263</u>	<u>\$ 4,702,800</u>

AQUINAS COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE U - ENDOWMENT (continued)

Changes in endowment assets for the years ended June 30, 2016 and 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, June 30, 2015	\$ 5,323,964	\$ 1,992,781	\$ 2,761,114	\$ 10,077,859
Reclassification	(4,913,435)	-	-	(4,913,435)
Dividend and interest income (during year)	106,364	95,035	-	201,399
Net appreciation (depreciation) (realized and unrealized)	(91,659)	(87,198)	-	(178,857)
Contributions and additions to endowments	-	-	12,149	12,149
Appropriation of endowment assets for expenditure	(169,196)	(72,118)	-	(241,314)
Appropriation of scholarship endowment assets for expenditure	(12,398)	(242,603)	-	(255,001)
Endowment assets, June 30, 2016	243,640	1,685,897	2,773,263	4,702,800
Reclassification	(263,946)	-	-	(263,946)
Dividend and interest income (during year)	7,918	105,094	-	113,012
Net appreciation (depreciation) (realized and unrealized)	24,979	445,295	-	470,274
Contributions and additions to endowments	-	-	6,700	6,700
Appropriation of endowment assets for expenditure	-	(106,735)	-	(106,735)
Appropriation of scholarship endowment assets for expenditure	(12,591)	(458,675)	-	(471,266)
Endowment assets, June 30, 2017	\$ -	\$ 1,670,876	\$ 2,779,963	\$ 4,450,839

As part of the restatement of net assets as disclosed in Note K; permanently restricted endowments were reduced by \$434,926, temporarily restricted endowments were reduced by \$109,600, and unrestricted endowments were increased by \$255,336 as of June 30, 2015.

Permanently Restricted Net Assets	2017	2016
(1) The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation	\$ 2,779,963	\$ 2,773,263
Total endowment funds classified as permanently restricted net assets	\$ 2,779,963	\$ 2,773,263





## AQUINAS COLLEGE

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

#### NOTE U - ENDOWMENT (continued)

##### Endowment Spending Policy - Scholarship Endowment

The College has 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 \$471,266 and \$255,001 from the scholarship endowments for the fiscal years 2017 and 2016, respectively.

#### NOTE V - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 11, 2017, which is the date the financial statements were available to be issued.

#### NOTE W - RECONFIGURATION

During the year ended June 30, 2017 the Dominican Sisters of St. Cecilia Congregation decided to reconfigure the College with a view of serving the Church and the mission of Catholic education. The College will center its academic program on the School of Education and arts and sciences. With this reconfiguration, Aquinas will no longer offer four-year degrees in business and nursing, nor traditional residential and student life.

Due to the reconfiguration, the College estimates that 75% to 85% of the College's sources of revenues and cash flows will be received from a single source, the Dominican Sisters of St. Cecilia Congregation.

As part of the reconfiguration the College provided severance pay to terminated employees. Total severance pay and related payroll taxes was \$885,633. Included in accrued expenses at June 30, 2017 was \$759,727 in accrued severance pay and related accrued payroll taxes. In addition, the College provided job search services in the amount of \$33,815 for terminated employees.

Also, as part of the reconfiguration, the College agreed to reimburse students for the cost of certain credit hours that would not transfer to a qualifying educational institution. Included in accrued expenses at June 30, 2017 was \$39,311 of authorized tuition reimbursements.

Also, as part of the reconfiguration, an endowed scholarship for the School of Business was identified that the College will no longer be able to award. The donor was contacted explaining the reconfiguration and the donor redirected the endowment from the College to another outside charitable purpose. The funds were transferred subsequent to year end on October 10, 2017 in the amount of \$272,584 which included the unspent earnings on the original gift through the date of transfer.

Also, as part of the reconfiguration, included in loss on disposal of fixed assets are \$654,452 of fixed assets written off that will no longer be utilized.

As a result of the reconfiguration the College will no longer participate in Government Student Financial Aid after June 30, 2017.