

Auburn Theological Seminary

Financial Statements

June 30, 2013

Independent Auditors' Report

Board of Directors Auburn Theological Seminary

We have audited the accompanying financial statements of Auburn Theological Seminary ("Auburn"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Auburn Theological Seminary as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

Report on Summarized Comparative Information

We have previously audited Auburn Theological Seminary's June 30, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

O'Connor Davies, LLP

October 29, 2013

Auburn Theological Seminary
Statement of Financial Position
June 30, 2013
(with comparative amounts at June 30, 2012)

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 509,320	\$ 152,414
Receivables (Note 3)		
Contributions, net	1,670,455	1,024,346
Grants, net	327,632	450,000
Other	41,899	123,639
Prepaid expenses and other assets	134,304	169,781
Promissory note receivable (Note 11)	143,802	154,804
Investments (Note 4)	17,738,788	18,504,826
Artwork	60,000	60,000
Leasehold improvements, equipment and intangibles (Note 6)	161,146	188,291
Beneficial interest in perpetual trust (Notes 7)	108,529	105,457
Permanently restricted investments (Notes 4 and 9)	<u>7,242,262</u>	<u>7,239,419</u>
Total Assets	<u>\$ 28,138,137</u>	<u>\$ 28,172,977</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 239,586	\$ 459,463
Deferred compensation (Note 11)	<u>379,532</u>	<u>340,115</u>
Total Liabilities	<u>619,118</u>	<u>799,578</u>
 Net assets		
Unrestricted		
Undesignated	5,331,198	5,323,630
Designated (Note 10)	<u>11,532,290</u>	<u>11,319,269</u>
Total Unrestricted	16,863,488	16,642,899
Temporarily restricted (Note 8)	3,304,740	3,385,624
Permanently restricted (Note 9)	<u>7,350,791</u>	<u>7,344,876</u>
Total Net Assets	<u>27,519,019</u>	<u>27,373,399</u>
	<u>\$ 28,138,137</u>	<u>\$ 28,172,977</u>

Auburn Theological Seminary
Statement of Activities
Year Ended June 30, 2013
(with summarized comparative totals for the year ended June 30, 2012)

	Unrestricted		Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
	Undesignated	Board Designated				
PUBLIC SUPPORT AND REVENUE						
Gifts and grants	\$ 994,125	\$ -	\$ 2,095,700	\$ -	\$ 3,089,825	\$ 1,719,775
Special events	415,366	-	50,000	-	465,366	534,291
Tuition and fees	286,833	-	-	-	286,833	241,058
Allocated investment income	1,349,522	-	511,133	-	1,860,655	1,802,590
Other	133,667	-	-	-	133,667	13,266
Use of designated funds for capacity building (Note 10)	200,000	-	-	-	200,000	950,000
Unused grant funds	-	-	(163,868)	-	(163,868)	-
Net assets released from restrictions (Note 8)	<u>2,885,026</u>	<u>-</u>	<u>(2,885,026)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>6,264,539</u>	<u>-</u>	<u>(392,061)</u>	<u>-</u>	<u>5,872,478</u>	<u>5,260,980</u>
EXPENSES						
Program services						
Education/Theology	1,959,800	-	-	-	1,959,800	1,414,552
Media	1,154,765	-	-	-	1,154,765	725,404
Action	1,095,970	-	-	-	1,095,970	1,712,026
Research	<u>857,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>857,424</u>	<u>895,389</u>
Total Program Services	<u>5,067,959</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,067,959</u>	<u>4,747,371</u>
Supporting services						
Management and general	692,767	-	-	-	692,767	632,629
Fund raising and development	324,127	-	-	-	324,127	319,623
Direct cost of special events	<u>172,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>172,118</u>	<u>400,228</u>
Total Supporting Services	<u>1,189,012</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,189,012</u>	<u>1,352,480</u>
Total Expenses	<u>6,256,971</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,256,971</u>	<u>6,099,851</u>
Change in Net Assets before Nonoperating Activity	<u>7,568</u>	<u>-</u>	<u>(392,061)</u>	<u>-</u>	<u>(384,493)</u>	<u>(838,871)</u>
NONOPERATING ACTIVITY						
Change in beneficial interest in perpetual trust	-	-	-	3,072	3,072	(3,527)
Costs related to governance change (Note 15)	-	(313,259)	-	-	(313,259)	(297,479)
Non-allocated investment income (loss)	<u>-</u>	<u>526,280</u>	<u>311,177</u>	<u>2,843</u>	<u>840,300</u>	<u>(4,077,370)</u>
Total Nonoperating Activity	<u>-</u>	<u>213,021</u>	<u>311,177</u>	<u>5,915</u>	<u>530,113</u>	<u>(4,378,376)</u>
Change in Net Assets	7,568	213,021	(80,884)	5,915	145,620	(5,217,247)
NET ASSETS						
Beginning of year	<u>5,323,630</u>	<u>11,319,269</u>	<u>3,385,624</u>	<u>7,344,876</u>	<u>27,373,399</u>	<u>32,590,646</u>
End of year	<u>\$ 5,331,198</u>	<u>\$ 11,532,290</u>	<u>\$ 3,304,740</u>	<u>\$ 7,350,791</u>	<u>\$ 27,519,019</u>	<u>\$ 27,373,399</u>

See notes to financial statements

Auburn Theological Seminary
Statement of Functional Expenses
Year Ended June 30, 2013
(with summarized comparative totals for the year ended June 30, 2012)

	Program Services				Total Program Services	Management and General	Fundraising and Development	Direct Costs of Special Events	2013 Total	2012 Total
	Education/ Theology	Media	Action	Research						
Salaries and wages	\$ 842,314	\$ 558,700	\$ 467,874	\$ 521,760	\$ 2,390,648	\$ 218,617	\$ 209,971	\$ -	\$ 2,819,236	\$ 2,376,721
Payroll taxes and employee benefits	214,844	129,082	102,665	88,607	535,198	77,063	26,344	-	638,605	654,250
Professional fees and other contracted services	446,720	285,715	216,535	118,207	1,067,177	132,109	64,679	56,235	1,320,200	1,535,956
Marketing and communications	11,584	9,684	8,675	10,722	40,665	723	2,406	26,718	70,512	122,129
Office expenses	39,271	21,565	16,718	18,178	95,732	31,705	4,719	-	132,156	169,087
Equipment and information technology	31,215	23,102	24,266	16,452	95,035	51,373	260	28,065	174,733	141,107
Occupancy	60,590	37,302	30,845	30,295	159,032	100,984	-	50,271	310,287	238,144
Travel	214,027	63,772	41,413	32,409	351,621	15,328	11,670	3,713	382,332	316,021
Conferences, conventions and meetings	35,667	5,981	167,373	1,403	210,424	600	4,078	-	215,102	344,732
Depreciation and amortization	22,356	11,178	11,178	11,178	55,890	37,259	-	-	93,149	122,307
Insurance	16,416	6,722	6,722	6,722	36,582	22,408	-	-	58,990	58,157
Scholarship and grant awards	8,296	673	673	673	10,315	2,242	-	-	12,557	4,321
Miscellaneous	2,522	1,055	1,033	718	5,328	2,356	-	7,116	14,800	16,919
Bad debt	13,978	234	-	100	14,312	-	-	-	14,312	-
Total Expenses	\$ 1,959,800	\$1,154,765	\$ 1,095,970	\$ 857,424	\$ 5,067,959	\$ 692,767	\$ 324,127	\$ 172,118	\$ 6,256,971	\$ 6,099,851

Auburn Theological Seminary

Statement of Cash Flows
Year Ended June 30, 2013
(with comparative amounts for the year ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 145,620	\$ (5,217,247)
Adjustments to reconcile change in net assets to net cash from operating activities		
Return of grant funds	163,868	-
Depreciation and amortization	93,149	122,307
Loss on disposal of intangible asset	-	20,920
Loss on disposal of equipment	1,467	-
Net realized and unrealized (gains) losses on investments	(2,594,450)	1,931,618
Net unrealized loss on note receivable	11,002	-
Change in beneficial interest in perpetual trust	(3,072)	3,527
Changes in operating assets and liabilities		
Receivables	(605,869)	(90,725)
Prepaid expenses and other assets	35,477	(93,718)
Accounts payable and accrued expenses	<u>(219,877)</u>	<u>141,980</u>
Net Cash from Operating Activities	<u>(2,972,685)</u>	<u>(3,181,338)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Note receivable disbursed	-	(154,804)
Purchase of leasehold improvements, equipment and intangibles	(67,471)	(44,136)
Purchase of investments	(2,300,476)	(5,276,024)
Proceeds from sales of investments	<u>5,697,538</u>	<u>8,605,594</u>
Net Cash from Investing Activities	<u>3,329,591</u>	<u>3,130,630</u>
 Net Change in Cash and Cash Equivalents	356,906	(50,708)
 CASH AND CASH EQUIVALENTS		
Beginning of year	<u>152,414</u>	<u>203,122</u>
End of year	<u>\$ 509,320</u>	<u>\$ 152,414</u>

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

1. Organization and Tax Status

Auburn Theological Seminary (“Auburn”) equips bold, resilient leaders – religious and secular, women and men, adults and teens – with the tools and resources they need to bridge religious divides, build community, pursue justice and heal the world. A seminary with multifaith commitments and Christian roots that faces the challenges of our fragmented, complex and violent time, Auburn envisions religion as a catalyst and resource for a new world – one in which difference is celebrated, abundance is shared, and people are hopeful, working for a future that is better than today.

Auburn brings almost 200 years of experience preparing religious leaders for the real world, from its founding in 1818 to its global presence today. Auburn was established to prepare Presbyterian ministers hardy enough for the frontier. Its early leaders championed the great social movements of their time such as abolition and reforms that supported the poor and the rights of children, women, and prisoners. Auburn stood for openness and tolerance and was against religious fundamentalisms. It was one of the first seminaries to educate women. More recently, civil rights, equality for women, human trafficking, and xenophobia have been among Auburn’s chief issues of social concern.

During the Great Depression, Auburn moved from its historic home in upstate New York to the campus of Union Theological Seminary in New York City, where it established itself as a pioneer in continuing education for religious leaders. In recent decades it has been an innovator in multifaith education, in equipping religious leaders to use media, and in research on and for theological education. Much of Auburn’s contemporary work has addressed the challenges and opportunities presented by America’s growing religious diversity as well as the growing number of Americans who identify as “spiritual” without affiliating with a religious movement or institution.

Auburn is an independent, educational institution chartered in New York State that works in partnership with diverse denominations, institutions and organizations. It maintains its historic relationship with the Presbyterian Church (U.S.A.).

While Auburn no longer grants degrees, it takes special responsibility for Presbyterian students enrolled at Union Theological Seminary and New York Theological Seminary. Auburn provides courses, workshops, counseling and coaching to help these students meet denominational requirements for ordination and serves as a gathering point for Presbyterian communities.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

1. Organization and Tax Status (*continued*)

Program Goals

All Auburn programs are designed to educate and equip religious leaders and their collaborators to work effectively in our complex, multifaith world. Auburn develops, incubates and offers innovative educational models and pedagogical methods to galvanize religious life and leadership in our multifaith world; builds knowledge by conducting and publishing applied research that strengthens theological education and faith-rooted leadership; and convenes thought leaders through a variety of public platforms to explore and share their insights on religious life, leadership development and the changing nature of our multifaith world. From time to time, Auburn's programs explore specific themes. Organizational strategic planning underway in FY2012-2013 and FY2013-2014 guides the evolution and/or reshaping of Auburn's programmatic foci.

Areas of Programmatic Focus

Education/Theology

Auburn uses a variety of innovative pedagogical approaches and methodologies to equip individuals as well as cohorts of religious and community leaders to reach across lines of religious difference to (1) address today's most pressing issues, (2) develop characteristics such as resilience that they need for our fast-changing world, and (3) use the wisdom of their faith traditions to achieve these goals. The Face to Face | Faith to Faith program equips teens from the Middle East, Northern Ireland and South Africa to tap their religious heritages to build mutual understanding and more peaceful communities. The Sojourner Truth Leadership Circle enables African-American religious leaders to learn to care for their mind, body and spirit in order to sustain their leadership. The CrossCurrents Colloquium convenes religion scholars, sociologists, clergy, activists and others for in-depth scholarly exploration. Auburn's Entrepreneurial Ministry Fellowship equips pastors with the theological and practical capacities and support they need to develop new faith communities. Auburn's Coaching Programs advance the Christian leadership formation of pastors, helping them thrive in their ministries, as well as train coaches to assist others. Multifaith seminars, events and experiential learning are public platforms for bridging divides and building a better tomorrow.

Media

Auburn Media provides media expertise to seasoned and emerging religious leaders and religious expertise to the media. Recognizing that so many turn to mainstream media and the Internet for information, education and inspiration, Auburn Media offers a variety of workshops and coaching opportunities that equip religious leaders, seminary students and faith-rooted activists — and their community partners — to communicate strategically and effectively with and through media platforms on issues of pressing social concern. Through FaithSource, a speakers' bureau of prominent clergy and religion experts, Auburn Media helps journalists and other media makers connect with and cover the religious voices and that humanize on issues ranging from gun violence prevention to marriage equality. Auburn Media also develops and/or distributes curricula and documentary films and videos on social issues and religion; these assist faith leaders in their work to educate and galvanize their constituencies.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

1. Organization and Tax Status (*continued*)

Areas of Programmatic Focus (continued)

Action

Auburn Action equips faith-rooted leaders to develop strategies and skills for using social media to inspire congregants and constituencies, build community and move people of faith to take action. Groundswell, Auburn's on-line community for social action, now counts some 85,000 participants and serves a dual purpose as a digital platform that faith leaders can use to educate and engage others on issues of pressing social concern. Auburn Action coaches and assists clergy and other faith and community leaders to amplify their calls for justice through Groundswell on issues such as preventing gun violence and human trafficking, working for a moral economy, countering Islamophobia and xenophobia, achieving marriage equality, and protecting the dignity of marginalized people, including immigrants. MountainTop convenes faith leaders and their partners to explore strategies that deepen the role of religion in building a more just society and to promote collaboration and networks among leaders of diverse faiths, issues and sectors.

Research

The Center for the Study of Theological Education (CSTE) is the only research institute devoted solely to theological education. The applied research and consulting it conducts builds knowledge benefitting both institutions that educate religious leaders as well as their stakeholders and constituencies. CSTE identifies and explores key issues such as student life and debt, educational and administrative leadership, faculty, curriculum, finances and the public role of theological schools. CSTE consultants help schools evaluate programs, develop strategies, forge new institutional partnerships, achieve financial stability and support their senior leadership. CSTE reports, publications and videos are widely distributed and available in print and/or on-line.

Tax Status and Public Support

The Internal Revenue Service has determined that Auburn is tax-exempt in accordance with Internal Revenue Code Section 501(c)(3). Auburn is registered as a charitable, tax-exempt institution in all 50 states that require such registration for the purpose of soliciting charitable donations.

Auburn is chartered as an educational institution in New York State.

Auburn's programs and operations are supported primarily through individual and institutional gifts and grants and investment income.

Auburn is eligible to accept charitable gifts and grants from individuals and institutions, including matching and other contributions from corporations.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets are classified based on the existence or absence of donor-imposed restrictions. Unrestricted amounts are those currently available at the discretion of the board for use in Auburn's operations. Temporarily restricted amounts are those stipulated by donors for specific purposes or time periods that will be met either by action of Auburn or passage of time. Permanently restricted amounts are those established by donor restricted gifts to provide a permanent endowment.

Use of Estimates

The preparation of financial statements 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.

Cash and Cash Equivalents

Cash equivalents are all highly liquid investments with a maturity of three months or less at the time of purchase.

Fair Value Measurements

Auburn follows Financial Accounting Standards Board ("FASB") guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation

Investments are carried at fair value. The fair value of alternative investments has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective alternative investment fund. FASB guidance provides for the use of NAV as a "Practical Expedient" for estimating fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of Auburn's interest therein and their classification as Level 3 is based on Auburn's ability to redeem its interest in the near term.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

2. Summary of Significant Accounting Policies (*continued*)

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of changes in net assets.

Beneficial Interest in Perpetual Trust

The beneficial interest in perpetual trust is stated at the fair value of Auburn's interest in the net assets of the trust.

Contributions Receivable

Contributions that are expected to be collected within one year are recorded at net realizable value. Contributions that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises are received. Amortization of the present value of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Auburn determines whether an allowance for uncollectibles should be provided for grants and contributions receivable. Such estimates are based on management's assessment of the aged basis of its contributions and other sources, current economic conditions, subsequent collections and historical information. Grants and contributions receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Leasehold Improvements, Equipment and Intangibles

Such assets are carried at cost less accumulated depreciation and amortization. Items with a cost of more than \$1,000 and an estimated useful life of three years or more are capitalized. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets, ranging from 3 to 10 years. Leasehold improvements are amortized over the shorter of the term of the lease or the estimated useful life of the improvements. Website development costs are amortized over their estimated useful life of 3 years.

Contributions

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

2. Summary of Significant Accounting Policies *(continued)*

Expense Allocation

The costs of providing various services have been summarized on a functional basis in the statement of activities and shown in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Auburn.

Accounting for Uncertainty in Income Taxes

Auburn recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that Auburn had no uncertain tax positions that would require financial statement recognition. Auburn is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to fiscal 2010.

Reclassification

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 financial statement presentation. There has been no effect on net assets as a result of these classifications.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 29, 2013.

3. Contributions and Grants Receivable

Those receivables that are due in more than one year have been discounted to their present value using a discount rate of 4.7%. Management has determined that no allowance for uncollectible amounts is necessary. Contributions receivable are recorded as follows:

2013 - 2014	\$ 852,575
2014 - 2015	550,000
2015 - 2016	<u>325,000</u>
	1,727,575
Less discount to present value	<u>(57,120)</u>
Present value of contributions receivable	<u>\$1,670,455</u>

Grants receivable at June 30, 2013 total \$327,632 and are expected to be collected in the next fiscal year.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

3. Contributions and Grants Receivable (*continued*)

As of May 9, 2013 after a great deal of reflection and consultation Auburn Theological Seminary made the decision to end its Religion Dispatches program which had been acquired in June 2012. While the program amplified the voices of talented writers at the intersection of religion and public life, management concluded that its full potential would not be reached with existing structures in place. Auburn's management and board values our trusted and lengthy relationship with the funders who have generously provided underwriting of Religion Dispatches since its inception. All funds remaining were returned to the funders given that Auburn did not complete the programmatic obligations of those grants. The \$163,868 unused grant funds on the Statement of Activities represents funds pledged in the prior year that will not be received. In addition, another \$124,859 in donations were received and returned to three donors within the course of FY12-13. Since these donations were pledged, received and returned in the same fiscal year they are reported net of the Gifts and Grants line of the Statement of Activities.

4. Investments

The following summarizes the investments held by Auburn as of June 30, 2013:

	<u>Fair Value</u>
Cash and cash equivalents	\$ 259,368
Mutual funds	18,070,855
Fund of funds	<u>6,650,827</u>
	<u>\$ 24,981,050</u>

The following summarizes investment return for the year ended June 30, 2013:

Interest and dividends	\$ 306,505
Realized and unrealized gain on investments	<u>2,594,450</u>
	<u>\$ 2,900,955</u>
Allocated investment income:	
Budgetary allocation of investment income	\$ 1,349,522
Use of designated funds for capacity building	200,000
Investment income on restricted funds	511,133
	2,060,655
Non-allocated investment income	<u>840,300</u>
	<u>\$ 2,900,955</u>

Total investment advisory fees for fiscal year end 2013 amounted to \$67,869.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

5. Fair Value Measurements

The following are the classes and major categories of assets measured at fair value on a recurring basis as of June 30, 2013, grouped by the fair value hierarchy:

Description	Level 1	Level 2	Level 3	Total
Investments at fair value				
Mutual funds				
Domestic equity	\$ -	\$ 5,229,558	\$ -	\$ 5,229,558
International equity	5,362,709	1,636,373	-	6,999,082
Fixed income	3,392,406	-	-	3,392,406
Commodities	2,449,809	-	-	2,449,809
Fund of funds				
Long/short equity	-	-	2,581,430	2,581,430
Multi strategy	-	4,069,397	-	4,069,397
Total Investments	11,204,924	10,935,328	2,581,430	24,721,682
Beneficial interest in perpetual trust	-	-	108,529	108,529
Total	<u>\$ 11,204,924</u>	<u>\$ 10,935,328</u>	<u>\$ 2,689,959</u>	<u>\$ 24,830,211</u>

The table below sets forth a summary of changes in the fair value of the Level 3 assets for the year ended June 30, 2013:

	Fund of Funds	Beneficial Interest in Perpetual Trust	Total
Balance, beginning of year	\$ 2,289,776	\$ 105,457	\$ 2,395,233
Total realized/unrealized appreciation relating to instruments still held at the reporting date included in earnings	<u>291,654</u>	<u>3,072</u>	<u>294,726</u>
Balance, end of year	<u>\$ 2,581,430</u>	<u>\$ 108,529</u>	<u>\$ 2,689,959</u>

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

5. Fair Value Measurements *(continued)*

Information regarding Level 2 and Level 3 investments valued using the practical expedient at June 30, 2013 is as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemptions Frequency</u>	<u>Notice Period</u>
Long/short equity (see a. below)	\$2,581,430	\$ -	Annually	95 days
Multi strategy (see b. below)	<u>4,069,397</u>	<u>-</u>	Quarterly	90 days
Total	<u>\$6,650,827</u>	<u>\$ -</u>		

a. The strategy seeks maximum appreciation of capital while incurring reasonable risk by investing primarily with a diversified group of managers. The firm generally invests with long/short equity and absolute return oriented fund managers that employ a fundamental approach to investing. Fund managers typically engage in bottom-up research and are at liberty to use a variety of exposures, instruments, and strategies to achieve their objectives. The firm considers the long-term prospects of the underlying manager in its selection process and emphasizes the following criteria: evidence of prior investment success; an investment philosophy based on strong fundamental research and analysis; a sound portfolio and risk management approach; and interests which align with those of the firm. The firm seeks to maintain portfolio risk and correlation at a level that is lower than broad market averages. Risk is mitigated through diversification by investing assets with managers that have expertise in different strategy areas, industry sectors, capitalization sizes, and geographic areas. No single manager may account for greater than 15% of the fund's portfolio (measured at cost).

b. This Fund was formed primarily with the purpose of achieving long-term growth of capital with reduced volatility by allocating its capital among various money managers that, as a group, employ a variety of investment techniques and strategies. By investing through this diverse group, the Fund seeks to provide investors with access to the varied skills and expertise of these managers while at the same time lessening risks and volatility associated with investing through any one particular manager. The Fund trades in securities indirectly by investing its assets in particular investment funds and investment managers.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

6. Leasehold Improvements, Equipment and Intangibles

Leasehold improvements, equipment and intangibles consist of the following at June 30, 2013:

Leasehold improvements	\$ 441,346
Equipment	137,998
Website	<u>295,320</u>
	874,664
Less: accumulated depreciation and amortization	<u>(713,518)</u>
	<u>\$ 161,146</u>

7. Beneficial Interest in Perpetual Trust

Auburn has a beneficial interest in a perpetual trust held by another entity as trustee. The fair value of Auburn's beneficial interest in this trust is estimated to be equal to the fair value of that portion of the assets underlying the trust attributable to Auburn's interest. The investment portfolio of the trust is generally composed of equity and fixed income mutual funds. The change in fair value of the beneficial interest for 2013 is reflected in the statement of activities as a non-operating gain totaling \$3,072.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and the purposes for which such net assets may be used are as follows:

Education/Theology	\$ 954,096
Media	564,628
Action	288,683
Research	<u>1,497,333</u>
	<u>\$3,304,740</u>

Net assets released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors during the year ended June 30, 2013 are as follows:

Education/Theology	\$ 794,624
Media	827,938
Action	505,393
Research	<u>757,071</u>
	<u>\$2,885,026</u>

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Notes To Financial Statements
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9. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2013 are endowed for the following purposes:

Education/Theology	\$1,167,870
Media	566,368
Action	640,827
Research	<u>4,975,726</u>
	<u>\$7,350,791</u>

10. Endowment Funds

General

Auburn's true endowment (also known as the permanently restricted net assets) consists of 59 donor-restricted net asset funds, 58 of which support various general and particular purposes of Auburn. The returns from the various permanently restricted net asset funds are either classified as unrestricted, temporarily restricted, or permanently restricted, depending on any restriction placed on the use of the return by the donor. The return from one fund is, according to the donor's stipulation, added back to the principal of the net assets as a permanently restricted addition. As required by generally accepted accounting principles, net assets associated with these endowment funds are classified and reported based on existing donor-imposed restrictions.

The returns from endowment funds that are classified as temporarily restricted net assets are considered to be functioning as endowments until such time as these funds are appropriated for expenditure.

In addition, a portion of the accumulated unspent unrestricted returns from long-term investments and operational surpluses are considered board-designated funds functioning as endowment.

Auburn Theological Seminary

Notes To Financial Statements

June 30, 2013

10. Endowment Funds (continued)

Interpretation of Relevant Law

The Board of Directors of Auburn has interpreted the New York Prudent Management of Institutional Funds Act (“NYPMIFA”) as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, and except in those cases where the law allows appropriation for spending of the original gift amounts. As a result of this interpretation, the Board 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 of investment returns 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 remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by NYPMIFA. Returns from board-designated funds functioning as endowments are unrestricted.

Return Objectives, Strategies Employed and Spending Policy

Auburn has a policy of appropriating for distribution each year an amount not exceeding 6 percent of the average fair value of its long-term investments over the prior 12 quarters through the calendar year end proceeding the fiscal year in which the distribution is planned. The policy includes a provision in which the Board of Directors can appropriate an additional 1 percent for a maximum of three years during times that are considered to be extraordinary. Auburn’s investments include the permanently restricted net assets that must be held in perpetuity.

Under this policy, as approved by the Board of Directors, the long-term financial assets are invested in a manner that is intended to provide a predictable stream of funding to Auburn’s activities while seeking to maintain the purchasing power of the invested assets with a moderate level of risk. Auburn expects its invested funds, over time, to provide an average rate of return of 7 percent annually with less than market level risk. To satisfy the long-term rate of return objective, Auburn relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. Auburn employs a diversified asset allocation to achieve consistency of returns and to minimize risk.

Use of Designated Funds for Capacity Building

The Auburn Board of Directors approved the use of these designated funds to build the capacity and infrastructure required for the Seminary to achieve a set of stated goals and objectives during fiscal 2013 in direct fulfillment of its mission. These activities lay the groundwork for future Auburn programs that will begin to be phased-in as a result of strategic planning and expanded fundraising that was begun during fiscal 2013 and that will be more fully launched and implemented during fiscal 2014.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

10. Endowment Funds *(continued)*

Endowment Net Asset Composition by Type of Fund

The following table summarizes the activity of the endowment funds for the year ended June 30, 2013 according to the purposes for which their income may be used:

	Permanently Restricted	Temporarily Restricted	Board Designated Endowment Fund	Total
Balance, June 30, 2012	\$ 7,239,419	\$ 795,895	\$ 11,319,269	\$ 19,354,583
Interest and dividends	291	84,205	222,009	306,505
Realized and unrealized gains	2,552	738,105	1,853,793	2,594,450
Appropriation for expenditure	-	(511,133)	(1,349,522)	(1,860,655)
Use of designated funds for capacity building			(200,000)	(200,000)
Use of designated funds for cost related to governance change	-	-	(313,259)	(313,259)
Balance, June 30, 2013	<u>\$ 7,242,262</u>	<u>\$ 1,107,072</u>	<u>\$ 11,532,290</u>	\$ 19,881,624
Other investments not held as an endowment				<u>5,099,426</u>
Total investments				<u>\$ 24,981,050</u>
 Comprised of the following:				
Donor restricted funds	\$ 7,242,262	\$ 1,107,072	\$ -	\$ 8,349,334
Board designated funds	-	-	11,532,290	11,532,290
Total Funds	<u>\$ 7,242,262</u>	<u>\$ 1,107,072</u>	<u>\$ 11,532,290</u>	\$ 19,881,624
Other investments not held as an endowment				<u>5,099,426</u>
Total Investments				<u>\$ 24,981,050</u>

11. Promissory Note Receivable-Deferred Compensation

Auburn offered its former President a deferred compensation plan as of July 1, 2009 with payments to be made between 2014 and 2018. Auburn's liability under this plan, including revisions entered into with the advice of counsel as a result of its charter amendment (Note 15), at June 30, 2013 is \$379,532.

The revised deferred compensation plan includes a promissory note agreement (the "Agreement"), which advanced amounts sufficient to pay tax costs associated with accelerated, but not yet payable, taxable income, with the former President. The Agreement calls for equal principal repayments over a 5-year period beginning in 2014 and ending in 2018. The note, which is interest free and which did not increase the amounts payable under the previous arrangement, will be repaid by being withheld from the payments otherwise due to the former President under the existing deferred compensation agreement.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

12. Commitments and Contingencies

Leases

Effective July 1, 2002, Union Theological Seminary ("Union") and Auburn entered into a ten-year lease agreement. During the first fiscal year of the agreement, Auburn paid Union \$112,000 under the agreement, with annual increases of 3% thereafter. During fiscal 2013, Auburn signed an additional one-year lease with the Union, which ends on June 30, 2014.

Auburn's office lease with The Interchurch Center has been extended through June 30, 2015.

Total rent expense under the leases for fiscal year 2013 amounted to \$287,726.

The future minimum payments required under these various lease agreements for the years ended June 30 are as follows:

Years Ended June 30,	
2014	\$ 248,072
2015	<u>95,827</u>
	<u>\$ 343,899</u>

13. Retirement Benefits

Auburn sponsors a tax-deferred annuity plan for its permanent employees who have completed at least one year of service. Contributions to the plan are made at 10% of participants' gross salaries, up to the maximum amount allowed by the Internal Revenue Service. The pension expense for the year totaled \$183,351.

14. Related Party Transaction

A board member of Auburn is related to an individual who facilitated Auburn's June 2013 convening ("MountainTop"). Auburn paid this individual for the team of co-facilitators who helped produce and support this meeting. During the year ended June 30, 2013, fees totaling \$44,000 and reimbursed expenses totaling \$7,802 were paid to this individual.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2013

15. Governance Change

During fiscal 2012 an amendment to Auburn's charter was approved by the Board of Regents for the State of New York. The amendment changed the method for electing the members of Auburn's board of directors. The charter now permits the board of directors to select the directors, subject to the requirement that the majority of the board are members of the Presbyterian Church (USA) and that a certain number of those members be from Presbyterian (USA) ministries in New York State. All costs related to this governance change are included on the Statement of Activities as non-operating costs. The charter amendment also resulted in the taxability to the former President of certain deferred and other compensation to be paid in future years in the year of the effective date of the charter amendment.

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