

Auburn Theological Seminary

Financial Statements

June 30, 2016

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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 22, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

October 27, 2016

Auburn Theological Seminary

Statement of Financial Position
June 30, 2016
(with comparative amounts at June 30, 2015)

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 339,088	\$ 735,596
Receivables (Note 4)		
Contributions, net	3,724,092	3,923,283
Grants	750,000	150,000
Other	75,600	76,012
Investment proceeds receivable (Note 5)	2,699,817	-
Prepaid expenses and other assets	113,998	163,175
Promissory note receivable (Note 12)	86,281	115,041
Investments (Note 5)	9,703,490	15,424,724
Artwork	166,000	62,000
Leasehold improvements and equipment, net (Note 7)	1,776,962	1,524,766
Beneficial interest in perpetual trust (Note 8)	112,000	112,813
Permanently restricted investments (Notes 5 and 10)	8,019,544	7,972,101
Total Assets	\$27,566,872	\$30,259,511
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 192,351	\$ 757,486
Deferred rent	23,863	26,815
Deferred compensation (Note 12)	273,534	352,667
Total Liabilities	489,748	1,136,968
 Net Assets		
Unrestricted		
Undesignated	5,582,801	5,533,559
Board designated (Note 11)	10,091,453	11,519,376
Total Unrestricted	15,674,254	17,052,935
 Temporarily restricted (Note 9)		
Temporarily restricted (Note 9)	3,271,326	3,984,694
Permanently restricted (Note 10)	8,131,544	8,084,914
Total Net Assets	27,077,124	29,122,543
	\$27,566,872	\$30,259,511

See notes to financial statements

Auburn Theological Seminary

Statement of Activities Year Ended June 30, 2016 (with summarized totals for the year ended June 30, 2015)

	Unrestricted		Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
	Undesignated	Board Designated				
PUBLIC SUPPORT AND REVENUE						
Gifts and grants	\$ 861,849	\$ -	\$ 3,488,018	\$ 50,000	\$ 4,399,867	\$ 4,636,134
Special events	616,325	-	80,250	-	696,575	599,527
Tuition and fees	219,404	-	10,015	-	229,419	223,834
Allocated investment income	813,279	-	538,184	-	1,351,463	1,500,637
Other	26,452	-	-	-	26,452	-
Net assets released from restrictions (Note 9)	<u>3,887,532</u>	<u>-</u>	<u>(3,887,532)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>6,424,841</u>	<u>-</u>	<u>228,935</u>	<u>50,000</u>	<u>6,703,776</u>	<u>6,960,132</u>
EXPENSES						
Program Services						
Education	2,586,617	-	-	-	2,586,617	1,991,482
Media	988,798	-	-	-	988,798	1,091,141
Action	949,730	-	-	-	949,730	1,359,135
Research	<u>714,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>714,600</u>	<u>713,556</u>
Total Program Services	<u>5,239,745</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,239,745</u>	<u>5,155,314</u>
Supporting Services						
Management and general	550,100	-	-	-	550,100	406,156
Fundraising and development	392,641	-	-	-	392,641	363,800
Direct cost of special events	<u>193,113</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193,113</u>	<u>164,397</u>
Total Supporting Services	<u>1,135,854</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,135,854</u>	<u>934,353</u>
Total Expenses	<u>6,375,599</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,375,599</u>	<u>6,089,667</u>
Change in Net Assets before Nonoperating Activity	<u>49,242</u>	<u>-</u>	<u>228,935</u>	<u>50,000</u>	<u>328,177</u>	<u>870,465</u>
NONOPERATING ACTIVITY						
Change in beneficial interest in perpetual trust	-	-	-	(813)	(813)	(1,033)
Loss on abandonment of long-lived asset	-	-	-	-	-	(460)
Non-allocated investment loss	<u>-</u>	<u>(1,427,923)</u>	<u>(942,303)</u>	<u>(2,557)</u>	<u>(2,372,783)</u>	<u>(2,113,747)</u>
Total Nonoperating Activity	<u>-</u>	<u>(1,427,923)</u>	<u>(942,303)</u>	<u>(3,370)</u>	<u>(2,373,596)</u>	<u>(2,115,240)</u>
Change in Net Assets	49,242	(1,427,923)	(713,368)	46,630	(2,045,419)	(1,244,775)
NET ASSETS						
Beginning of year	<u>5,533,559</u>	<u>11,519,376</u>	<u>3,984,694</u>	<u>8,084,914</u>	<u>29,122,543</u>	<u>30,367,318</u>
End of year	<u>\$ 5,582,801</u>	<u>\$ 10,091,453</u>	<u>\$ 3,271,326</u>	<u>\$ 8,131,544</u>	<u>\$ 27,077,124</u>	<u>\$ 29,122,543</u>

See notes to financial statements

Auburn Theological Seminary

Statement of Functional Expenses Year Ended June 30, 2016 (with summarized totals for the year ended June 30, 2015)

	Program Services				Total Program Services	Supporting Services			2016 Total	2015 Total
	Education	Media	Action	Research		Management and General	Fundraising and Development	Direct Costs of Special Events		
Salaries and wages	\$ 1,286,247	\$ 505,139	\$ 494,683	\$ 345,324	\$ 2,631,393	\$ 180,545	\$ 170,594	\$ -	\$ 2,982,532	\$ 2,565,319
Payroll taxes and employee benefits	358,845	140,927	138,010	96,341	734,123	50,368	47,593	-	832,084	700,731
Professional fees and other contracted services	343,173	107,060	95,693	132,131	678,057	119,763	62,494	129,830	990,144	1,463,353
Marketing and communications	44,164	56,152	53,610	14,537	168,463	16,802	10,754	58,461	254,480	182,626
Office expenses	62,621	21,955	21,772	15,171	121,519	16,312	12,659	2,014	152,504	160,988
Equipment and information technology	20,902	8,209	8,039	5,612	42,762	2,934	2,772	-	48,468	43,631
Occupancy	160,656	63,093	61,787	43,132	328,668	22,552	21,308	1,471	373,999	361,290
Travel	164,170	38,276	25,121	21,707	249,274	70,104	29,145	-	348,523	351,147
Conferences, conventions and meetings	19,483	9,322	18,015	11,920	58,740	43,289	24,064	-	126,093	146,229
Depreciation and amortization	54,649	21,462	21,018	14,672	111,801	7,471	7,248	-	126,520	33,921
Insurance	27,254	10,703	10,482	7,317	55,756	3,825	3,615	-	63,196	73,819
Scholarship and grant awards	30,500	5,000	-	5,250	40,750	2,198	-	-	42,948	875
Miscellaneous	2,453	-	-	169	2,622	13,937	395	1,337	18,291	5,245
Bad debt	11,500	1,500	1,500	1,317	15,817	-	-	-	15,817	493
Total Expenses	<u>\$ 2,586,617</u>	<u>\$ 988,798</u>	<u>\$ 949,730</u>	<u>\$ 714,600</u>	<u>\$ 5,239,745</u>	<u>\$ 550,100</u>	<u>\$ 392,641</u>	<u>\$ 193,113</u>	<u>\$ 6,375,599</u>	<u>\$ 6,089,667</u>

See notes to financial statements

Auburn Theological Seminary

Statement of Cash Flows Year Ended June 30, 2016 (with comparative amounts for the year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,045,419)	\$(1,244,775)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	126,520	33,921
Loss on disposal of equipment	-	460
Net realized and unrealized loss on investments	1,176,695	809,753
Net unrealized (gain) loss on investments held for deferred compensation	(20,947)	412
Change in beneficial interest in perpetual trust	813	1,033
Deferred rent	(2,952)	(2,952)
Permanently restricted contribution	(50,000)	-
Changes in operating assets and liabilities		
Receivables	(400,397)	(623,707)
Prepaid expenses and other assets	49,177	(57,789)
Accounts payable and accrued expenses	(565,135)	544,300
Deferred compensation	(50,373)	(60,628)
Net Cash from Operating Activities	(1,782,018)	(599,972)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of leasehold improvements and equipment	(378,716)	(1,392,576)
Artwork	(104,000)	(2,000)
Purchase of investments	(20,876,030)	(2,832,845)
Investment proceeds receivable	(2,699,817)	-
Proceeds from sales of investments	25,394,073	4,568,999
Net Cash from Investing Activities	1,335,510	341,578
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contribution	50,000	-
Net Change in Cash and Cash Equivalents	(396,508)	(258,394)
CASH AND CASH EQUIVALENTS		
Beginning of year	735,596	993,990
End of year	\$ 339,088	\$ 735,596

SUPPLEMENTAL CASH FLOW DISCLOSURE

\$28,760 of the deferred compensation payment was used to satisfy the promissory note receivable during the years ended 2016 and 2015

See notes to financial statements

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2016

1. Organization and Tax Status

Leaders of faith and moral courage have guided social change throughout our nation's history – from the abolition of slavery and the fight for civil rights to the struggle against gun violence and climate change. Auburn Theological Seminary (“Auburn”) identifies and strengthens today's most promising leaders – from the pulpit to the public square – to bridge religious divides, build community, pursue justice, and heal the world.

An independent, non-profit multifaith center for leadership development and research, 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 originally established to prepare Presbyterian ministers for life on the frontier. Its early leaders championed the great social movements of their time, including anti-fundamentalism, anti-slavery, reforms that supported the poor, prisoners' rights and women's advancement – and it was one of the first seminaries to educate women. More recently, racial and economic justice, gun violence prevention, immigration reform, LGBTQ equality, and climate change have been among Auburn's issues of social concern.

During the Great Depression, Auburn moved from its 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. Auburn continues to be an innovator in multifaith education, equipping religious leaders to use media to amplify their messages and catalyze action, as well as conducting research on theological education and religion in the public square.

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

While Auburn no longer grants degrees, it supports Presbyterian students enrolled at Union Theological Seminary and New York Theological Seminary with courses, workshops, counseling, and coaching to help these students meet denominational requirements for ordination. Auburn also serves as a gathering point for Presbyterian communities on issues of social concern.

Auburn's work is guided by a strategic plan for 2013-2018. In accordance with this plan, during FY15-16, Auburn completed Phase I construction of an 11,000 square foot, state-of-the-art, flexible educational space for meetings, seminars, and trainings and to accommodate its educators, researchers, trainers and administrative staff. During that year, the meeting space began to be used regularly for workshops, training sessions and leadership gatherings convened by Auburn and religious, community, and educational partner organizations.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2016

1. Organization and Tax Status (*continued*)

In FY15-16 Auburn accepted funding from The Beatitudes Society and its signature Fellowship program. The Beatitudes Fellowship Program identified, supported, and connected young, entrepreneurial Christian faith leaders, who are committed to advancing social justice and the common good. Auburn has created a Justice Ministry Education program that transforms The Beatitudes Fellowship program as a multifaith program.

Educational Approach and Areas of Programmatic Focus

Auburn equips leaders, religious and secular alike, with the skills, tools, resources, and resilience they need to create lasting, positive impact in local communities, on the national stage, and around the world.

Auburn amplifies voices and visions of faith and moral courage to inspire change.

Auburn convenes diverse leaders and organizations across multiple sectors to advance multifaith understanding and generative collaboration.

Auburn analyzes what is working – and not – in theological education and social change, as well as in our own work, sharing results nationwide.

Auburn engages leaders and communities in public conversation on social justice issues and provide platforms for taking action.

Auburn draws upon the expertise of its entire staff to create an inclusive, integrated approach to: (1) educating and equipping individual and cohorts of faith and community leaders; (2) researching leadership development and evaluating the impact of its work; and (3) engaging the public. Auburn incorporates into these broad programs an array of tested training methods and curricular modules, as well as essential learnings from key initiatives.

Education

Auburn uses a variety of innovative pedagogical approaches and methodologies to equip and support individuals, 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 and skills that they need for effective leadership in our fast-changing world; and (3) use the wisdom of their faith traditions to achieve these goals.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2016

1. Organization and Tax Status (*continued*)

Education (continued)

The Auburn Senior Fellows program equips and supports top leaders so they may expand their national impact on critical social justice issues such as racism and gun violence. The Sojourner Truth Leadership Circle empowers African-American women leaders at the front lines of social change to care for their mind, body and spirit in order to sustain their leadership. Justice Ministry Education/Beatitudes Fellowship is a leadership and spiritual formation program for organizers, seminary students, clergy, and nonprofit staff. Young leaders from conflict and post-conflict zones, inspired by Auburn's groundbreaking Face to Face | Faith to Faith program, learn the art of storytelling, drawing from their religious heritages to build bridges and more peaceful communities.

Auburn's Coach Training program advances the Christian leadership formation of pastors, so they may thrive in their ministries. Courses, workshops, and counselling for Presbyterian students at Union Theological and New York Theological Seminary help them meet denominational requirements for ordination, an expression of Auburn's covenant relationship with Presbyterian Church (U.S.A.). Multifaith seminars, community conversations, public events and experiential learning opportunities are public platforms for bridging divides and building a better tomorrow.

Research

Auburn's applied research provides greater understanding of the most effective ways to equip leaders of faith and moral courage for today's complex, multifaith world. New research initiatives are exploring models for leadership development and public theological engagement with pressing social issues. The Center for the Study of Theological Education (CSTE) is internationally known for applied research on the needs of theological institutions, their leaders, students and stakeholders, including student life and debt, educational and administrative leadership, and the public role of theological schools. Auburn consultants help schools evaluate programs, develop strategies, forge new institutional partnerships, and support their senior leadership. Auburn researchers develop and implement methods of evaluating Auburn's impact. The CrossCurrents Research Colloquium convenes religion scholars, sociologists, clergy, activists and others for scholarly research and exploration on contemporary critical concerns. Auburn Studies are widely distributed and available in print and/or online.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2016

1. Organization and Tax Status (*continued*)

Media

Auburn provides media expertise, workshops, and coaching to equip seasoned and emerging leaders of faith and moral courage, seminary students and faith-rooted activists — and their community partners — to communicate effectively on issues of pressing concern through print, digital, broadcast and radio platforms. Key issues include racial justice, gun violence prevention, LGBTQ equality, economic justice and human dignity. Auburn also connects faith leaders and expert voices to the media and helps journalists and media makers connect with and cover the religious lens on contemporary, critical issues. The Table to Action Project equips faith leaders to improve their ability to communicate and work together effectively across sectors. Auburn Voices harnesses the power of the Internet to offer thoughtful discourse on the power of faith and moral courage to mobilize for a more just and peaceful world. Auburn also develops and/or distributes curricula and curates media on social issues and religion for faith leaders to use in their work to educate and galvanize their constituencies.

Action

Auburn equips faith-rooted leaders to develop strategies and skills that inspire constituencies, build community, and move people of faith and moral courage to take action. Groundswell, Auburn's online community for social action, includes more than 230,000 participants. It also serves as a free, digital platform that faith leaders and activists can use to inform and engage others on issues of pressing social concern. Auburn coaches and assists 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 LGBTQ equality, and protecting the dignity of marginalized people, including immigrants. Auburn also promotes action through curating and sharing outstanding faith-inspired content on the Internet.

Auburn builds collective impact by convening leaders nationally and locally to develop and launch collaborative, cross-sector strategies for change. MountainTop is both an offline and online gathering for faith leaders and their partners to explore strategies that deepen the role of religion in building a more just society.

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 for the purpose of soliciting charitable donations.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2016

1. Organization and Tax Status (continued)

Tax Status and Public Support (continued)

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

Auburn's programs and operations are supported through individual and institutional charitable gifts and grants, investment income, special event income, and tuition and fees for service.

Auburn is eligible to receive matching and other types of contributions and support from corporations.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

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

During 2016, Auburn adopted new U.S. GAAP guidance which removed the requirements to categorize within the fair value hierarchy alternative investments where fair value is measured using the Net Asset Value ("NAV") per share as a practical expedient. Adoption of this guidance was applied retrospectively and had no effect on the carrying value of such investments.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2016

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 change in net assets.

Investments Risks and Uncertainties

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, venture capital funds, hedge funds, private equity funds and common trust funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

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 and 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 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.

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 discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2016

2. Summary of Significant Accounting Policies (continued)

Contributions Receivable and Contributions (continued)

Auburn determines whether an allowance for uncollectible amounts 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 would be written off against the allowance for doubtful accounts only after all reasonable collection efforts have been exhausted.

Leasehold Improvements and Equipment

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 is 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 using the straight-line methodology. Website development costs are amortized over their estimated useful life of 5 years using the straight-line methodology.

Artwork

Auburn has a collection of artwork, appraised at approximately \$166,000 that is on public display.

Deferred Rent

Auburn has entered into an operating lease agreement which contains a provision for future rent increases. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method. The difference between rent expense recorded and the amount paid is charged to deferred rent, in the accompanying statement of financial position.

Net Asset Presentation

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 of Directors 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.

Tuition and Fees

Tuition and fee revenues are recognized in the fiscal year during which the academic services are rendered. Student tuition and fees received in advance of services to be rendered are reported as deferred revenue. Student aid provided by Auburn for tuition and fees is reported as an expense.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2016

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

Functional Allocation of Expense

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 specific program 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 or disclosure. Auburn is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to June 30, 2013.

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2015 is presented for comparative purposes only. Certain activities by net asset classification are not included in these financial statements. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with Auburn's financial statements as of and for the year ended June 30, 2015, from which the summarized comparative information was derived.

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 27, 2016.

3. Concentration of Credit Risk

Auburn's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, money market funds, contributions receivable and investments. Auburn places its cash and money market funds in what it believes to be quality financial institutions. The investment portfolio is managed by professional investment advisors and managers and is diversified by type of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of market risk. Concentrations of credit risk with respect to contributions receivable are generally diversified due to the large number of individual's composing Auburn's donor database. Auburn performs ongoing collectability evaluations and writes off uncollectible amounts as they become known. At June 30, 2016, contributions receivable from one donor represented 28% of Auburn's total contributions receivable balance at year-end.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2016

4. Contributions and Grants Receivable

Contributions receivable at June 30, 2016 are summarized as follows:

2017	\$ 2,700,092
2018	625,000
2019	245,000
2020	<u>200,000</u>
	3,770,092
Less discount to present value	<u>(46,000)</u>
Present value of contributions receivable	<u>\$ 3,724,092</u>

A present value discount using a rate of 2.78% has been calculated using discount factors that approximate the risk and expected timing of future contribution payments. Management has determined that no allowance for uncollectible amounts is necessary.

Grants receivable at June 30, 2016 total \$750,000 and are expected to be collected in the next fiscal year.

5. Investments

The following summarizes the investments held by Auburn as of June 30, 2016:

	<u>Fair Value</u>
Cash and cash equivalents	\$ 286,638
Mutual funds	12,648,236
Real estate funds	1,446,204
Fund of funds	<u>3,341,956</u>
	17,723,034
Investment proceeds receivable	<u>2,699,817</u>
	<u>\$ 20,422,851</u>

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2016

5. Investments (continued)

The following summarizes investment return for the year ended June 30, 2016:

Interest and dividends	\$ 134,428
Realized and unrealized loss on investments	<u>(1,155,748)</u>
	<u><u>\$ (1,021,320)</u></u>

Allocated investment income:

Budgetary allocation of investment income	\$ 731,114
Investment income on restricted funds	<u>620,349</u>
	1,351,463

Non-allocated investment loss	<u>(2,372,783)</u>
	<u><u>\$ (1,021,320)</u></u>

Total investment advisory fees for fiscal year 2016 amounted to \$49,836 and are included in professional fees.

6. 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, 2016, grouped by the fair value hierarchy:

	Level 1	Level 3	Investments Valued Using NAV (*)	Total
Mutual Funds				
Domestic equity	\$ 4,520,192	\$ -	\$ -	\$ 4,520,192
International equity	4,013,627	-	-	4,013,627
Fixed income	3,905,868	-	-	3,905,868
Commodities	208,549	-	-	208,549
Real estate funds	417,895	-	1,028,309	1,446,204
Fund of Funds				
Long/short equity	398,960	-	2,740,311	3,139,271
Multi strategy	<u>202,685</u>	<u>-</u>	<u>-</u>	<u>202,685</u>
Total Investments at Fair Value	13,667,776	-	3,768,620	17,436,396
Investment cash and cash equivalents	-	-	-	286,638
Beneficial interest				
in perpetual trust	<u>-</u>	<u>112,000</u>	<u>-</u>	<u>112,000</u>
Total Assets at Fair Value	<u><u>\$ 13,667,776</u></u>	<u><u>\$ 112,000</u></u>	<u><u>\$ 3,768,620</u></u>	<u><u>\$ 17,835,034</u></u>

(*) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy.

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Notes To Financial Statements
June 30, 2016

6. Fair Value Measurements *(continued)*

The table below sets forth a summary of changes in the fair value of the Level 3 assets for the year ended June 30, 2016:

	<u>Beneficial Interest in Perpetual Trust</u>
Balance, beginning of year	\$ 112,813
Total unrealized depreciation relating to instruments still held at the reporting date included in earnings	<u>(813)</u>
Balance, end of year	<u>\$ 112,000</u>

Information regarding alternative investments measured at NAV using the practical expedient at June 30, 2016 is as follows:

	Fair Value	Unfunded Commitments	Frequency	Redemptions Notice Period
Real estate fund (see "a" below)	\$ 1,028,309	\$ -	Monthly	10 Business Days
Long/short equity (see "b" below)	<u>2,740,311</u>	<u>-</u>	Annually	95 Days
Total	<u>\$3,768,620</u>	<u>\$ -</u>		

- a. This category includes an investment in a real estate hedge fund. The fund's objective is to generate net return in excess of the UBS Global Real Estate Investor Index through the creation and active management of a portfolio of publicly traded equity securities issued by real estate investment trusts and other publicly held real estate companies in North America, Europe, Australia and Asia.

- b. This category seeks maximum appreciation of capital while incurring reasonable risk by investing primarily with a diversified group of managers. The fund 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).

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Notes To Financial Statements
June 30, 2016

7. Leasehold Improvements and Equipment

Leasehold improvements and equipment consist of the following at June 30, 2016:

Leasehold improvements	\$ 1,726,743
Furniture and equipment	265,418
Intangible assets	<u>321,707</u>
	2,313,868
Less: accumulated depreciation and amortization	<u>536,906</u>
	<u>\$ 1,776,962</u>

Leasehold improvements represent those costs incurred as of June 30, 2016 for the major renovation project for the 18th floor space that Auburn is currently leasing. As of June 30, 2016, 90% of leasehold improvements have been placed in service and the remaining 10% will be operational in the fiscal year ending June 30, 2017.

8. 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 fiscal 2016 is reflected in the statement of activities as a nonoperating loss totaling \$813.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and the purposes for which such net assets may be used are as follows:

Education	\$ 373,724
Media	287,945
Action	202,548
Research	1,004,242
New office space	<u>1,402,867</u>
	<u>\$ 3,271,326</u>

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Notes To Financial Statements
June 30, 2016

9. Temporarily Restricted Net Assets *(continued)*

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, 2016 are as follows:

Education	\$ 1,624,101
Media	563,270
Action	663,480
Research	919,998
New office space	<u>116,683</u>
	<u>\$ 3,887,532</u>

10. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2016 are endowed for the following purposes:

Education	\$ 1,475,752
Media	5,125,719
Action	727,809
Research	<u>802,264</u>
	<u>\$ 8,131,544</u>

11. 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 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 U.S. GAAP, 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.

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Notes To Financial Statements
June 30, 2016

11. 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 of Directors 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 of Directors 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 in a range between 4 and 6 percent of the average fair value of its long-term investments over the prior 12 quarters through the calendar year end preceding 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 Board of Directors approved the use of these designated funds to build the capacity and infrastructure required for Auburn to achieve a set of stated goals and objectives during fiscal 2014 in direct fulfillment of its mission. These activities laid 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 more fully launched and implemented during fiscal 2014.

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Notes To Financial Statements
June 30, 2016

11. 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, 2016 according to the purposes for which their income may be used:

	Board Designated Endowment Fund	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2015	\$ 11,519,376	\$ 1,146,223	\$ 7,745,602	\$20,411,201
Contributions	-	-	50,000	50,000
Interest and dividends	81,954	52,137	337	134,428
Realized and unrealized losses	(696,598)	(456,256)	(2,894)	(1,155,748)
Appropriation for expenditure	(813,279)	(538,184)	-	(1,351,463)
Balance, June 30, 2016	\$ 10,091,453	\$ 203,920	\$ 7,793,045	18,088,418
Other investments not held as an endowment				2,334,433
Investment proceeds receivable				(2,699,817)
Total investments				\$17,723,034
Comprised of the following:				
Donor restricted funds	\$ -	\$ 203,920	\$ 7,793,045	\$ 7,996,965
Board designated funds	10,091,453	-	-	10,091,453
Total Funds	\$ 10,091,453	\$ 203,920	\$ 7,793,045	18,088,418
Other investments not held as an endowment				2,334,433
Investment proceeds receivable				(2,699,817)
Total Investments				\$17,723,034

Funds with Deficiencies

Due to unfavorable market fluctuations, from time to time the fair value of assets associated with individual donor-restricted endowment funds may decline below historic dollar value of the donor's original permanently restricted contribution. Auburn is not aware of any funds with deficiencies as of June 30, 2016.

12. 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 at June 30, 2016 is \$273,534.

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Notes To Financial Statements
June 30, 2016

12. Promissory Note Receivable-Deferred Compensation (*continued*)

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 fiscal 2015 and ending in fiscal 2019. 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.

13. Commitments and Contingencies

Leases

Effective March 1, 2014, The Interchurch Center and Auburn entered into a lease agreement. The lease covers a term of 10 years and 2 months. The lease requires Auburn to make a monthly payment of \$30,013. During January 2016, a 2.5% rent increase was charged to Auburn, which raised the monthly payment to \$31,275.

The future minimum payments required under the lease agreement for the years ending June 30 are as follows:

2017	\$ 375,300
2018	375,300
2019	375,300
2020	375,300
2021	375,300
2022 and thereafter	<u>1,058,185</u>
	<u>\$2,934,685</u>

14. 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 fiscal 2016 totaled \$203,870.

15. Related Party Transaction

A board member of Auburn is related to an individual who facilitated a training workshop. An employee is related to an individual who created website design material for Auburn. Another Auburn employee is related to someone who facilitated a cohort training retreat. The expenses incurred by Auburn for these transactions totaled \$25,261.

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