

# **Auburn Theological Seminary**

Financial Statements

June 30, 2018

## **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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*PKF O'Connor Davies, LLP*

October 18, 2018

## Auburn Theological Seminary

### Statement of Financial Position June 30, 2018 (with comparative amounts at June 30, 2017)

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 314,881	\$ 290,730
Receivables		
Contributions, net (Note 4)	6,451,344	2,570,118
Grants, net (Note 4)	1,027,110	2,482,357
Other	24,477	-
Investment proceeds receivable	-	750,516
Prepaid expenses and other assets	202,890	143,396
Promissory note receivable (Note 12)	28,760	57,520
Investments (Notes 5 and 6)	12,221,536	11,499,456
Artwork	188,000	188,000
Leasehold improvements and equipment, net (Note 7)	1,844,025	1,616,736
Beneficial interest in perpetual trust (Note 8)	112,362	110,160
Permanently restricted investments (Notes 5, 6 and 11)	8,051,312	8,048,578
Total Assets	\$ 30,466,697	\$ 27,757,567
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 404,294	\$ 206,424
Fiscal sponsorship	375,879	-
Line of credit (Note 13)	500,453	-
Deferred rent	48,580	51,778
Deferred compensation (Note 12)	141,638	206,028
Total Liabilities	1,470,844	464,230
Net Assets		
Unrestricted		
Undesignated	1,858,286	4,930,451
Board designated (Note 11)	10,874,964	10,887,585
Total Unrestricted	12,733,250	15,818,036
Temporarily restricted (Notes 9 and 11)	8,098,929	3,316,563
Permanently restricted (Notes 10 and 11)	8,163,674	8,158,738
Total Net Assets	28,995,853	27,293,337
	\$ 30,466,697	\$ 27,757,567

See notes to financial statements

## Auburn Theological Seminary

### Statement of Activities Year Ended June 30, 2018 (with summarized totals for the year ended June 30, 2017)

	Unrestricted		Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
	Undesignated	Board Designated				
<b>PUBLIC SUPPORT AND REVENUE</b>						
Gifts and grants	\$ 1,885,954	\$ -	\$6,268,739	\$ -	\$ 8,154,693	\$ 4,388,716
Special events	622,470	-	-	-	622,470	507,547
Tuition and fees	202,934	-	-	-	202,934	380,178
Allocated investment return	636,364	-	363,636	-	1,000,000	1,025,000
Fiscal sponsorships	35,452	-	-	-	35,452	-
Other	31,408	-	-	-	31,408	23,485
Net assets released from restrictions (Note 9)	1,890,577	-	(1,890,577)	-	-	-
Total Public Support and Revenue	<u>5,305,159</u>	<u>-</u>	<u>4,741,798</u>	<u>-</u>	<u>10,046,957</u>	<u>6,324,926</u>
<b>EXPENSES</b>						
Program Services						
Equipping leaders	5,383,707	-	-	-	5,383,707	4,953,007
Public engagement	213,469	-	-	-	213,469	-
Research	805,483	-	-	-	805,483	986,929
Total Program Services	<u>6,402,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,402,659</u>	<u>5,939,936</u>
Supporting Services						
Management and general	943,774	-	-	-	943,774	749,056
Fundraising and development	845,147	-	-	-	845,147	533,853
Direct cost of special events	185,744	-	-	-	185,744	183,933
Total Supporting Services	<u>1,974,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,974,665</u>	<u>1,466,842</u>
Total Expenses	<u>8,377,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,377,324</u>	<u>7,406,778</u>
Change in Net Assets before Nonoperating Activity	<u>(3,072,165)</u>	<u>-</u>	<u>4,741,798</u>	<u>-</u>	<u>1,669,633</u>	<u>(1,081,852)</u>
<b>NONOPERATING ACTIVITY</b>						
Change in beneficial interest in perpetual trust	-	-	-	2,202	2,202	(1,840)
Non-allocated investment return	-	(12,621)	40,568	2,734	30,681	1,299,905
Total Nonoperating Activity	<u>-</u>	<u>(12,621)</u>	<u>40,568</u>	<u>4,936</u>	<u>32,883</u>	<u>1,298,065</u>
Change in Net Assets	<u>(3,072,165)</u>	<u>(12,621)</u>	<u>4,782,366</u>	<u>4,936</u>	<u>1,702,516</u>	<u>216,213</u>
<b>NET ASSETS</b>						
Beginning of year	<u>4,930,451</u>	<u>10,887,585</u>	<u>3,316,563</u>	<u>8,158,738</u>	<u>27,293,337</u>	<u>27,077,124</u>
End of year	<u>\$ 1,858,286</u>	<u>\$10,874,964</u>	<u>\$8,098,929</u>	<u>\$8,163,674</u>	<u>\$28,995,853</u>	<u>\$27,293,337</u>

See notes to financial statements

## Auburn Theological Seminary

### Statement of Functional Expenses Year Ended June 30, 2018 (with summarized totals for the year ended June 30, 2017)

	Program Services			Supporting Services			2018 Total	2017 Total	
	Equipping Leaders	Public Engagement	Research	Total Program Services	Management and General	Fundraising and Development			Direct Costs of Special Events
Salaries and wages	\$ 2,288,097	\$ 114,518	\$ 451,381	\$ 2,853,996	\$ 303,039	\$ 376,724	\$ 15,933	\$ 3,549,692	\$ 3,290,306
Payroll taxes and employee benefits	580,825	28,912	114,043	723,780	206,138	91,394	3,983	1,025,295	990,391
Professional fees and other contracted services	1,181,896	30,305	75,763	1,287,964	150,325	75,763	1,200	1,515,252	1,280,835
Marketing and communications	197,280	2,118	5,252	204,650	67,936	15,060	18,728	306,374	270,220
Office expenses	111,051	2,347	8,161	121,559	17,542	10,142	49,473	198,716	153,834
Equipment and information technology	11,059	527	568	12,154	14,812	1,625	1,574	30,165	19,963
Occupancy	301,399	9,668	41,034	352,101	43,674	40,969	-	436,744	412,238
Travel	409,492	13,663	60,908	484,063	60,110	179,156	2,506	725,835	556,791
Conferences, conventions and meetings	65,708	5,898	19,815	91,421	46,850	30,123	91,967	260,361	157,645
Depreciation and amortization	124,090	3,980	16,894	144,964	17,982	16,867	-	179,813	191,608
Insurance	47,798	1,533	6,508	55,839	6,925	6,497	-	69,261	66,242
Scholarship and grant awards	65,000	-	5,156	70,156	8,406	827	-	79,389	16,480
Miscellaneous	12	-	-	12	15	-	380	407	225
Bad debt	-	-	-	-	20	-	-	20	-
Total Expenses	<u>\$ 5,383,707</u>	<u>\$ 213,469</u>	<u>\$ 805,483</u>	<u>\$ 6,402,659</u>	<u>\$ 943,774</u>	<u>\$ 845,147</u>	<u>\$ 185,744</u>	<u>\$ 8,377,324</u>	<u>\$ 7,406,778</u>

See notes to financial statements

## Auburn Theological Seminary

### Statement of Cash Flows Year Ended June 30, 2018 (with comparative amounts for the year ended June 30, 2017)

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,702,516	\$ 216,213
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	179,813	191,608
Loss on disposal of equipment	17,454	-
Net realized and unrealized gain on investments	(226,371)	(1,676,403)
Net unrealized gain on investments held for deferred compensation	(215,291)	(155,552)
Change in beneficial interest in perpetual trust	(2,202)	1,840
Deferred rent	(3,198)	27,915
Changes in operating assets and liabilities		
Receivables	(2,450,456)	(502,783)
Prepaid expenses and other assets	(59,494)	(29,398)
Accounts payable and accrued expenses	197,870	14,073
Fiscal sponsorship	375,879	-
Deferred compensation	(35,630)	(38,745)
Net Cash from Operating Activities	(519,110)	(1,951,232)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of leasehold improvements and equipment	(424,556)	(31,382)
Artwork	-	(22,000)
Purchase of investments	(29,077,358)	(22,510,065)
Investment proceeds receivable	750,516	1,949,301
Proceeds from sales of investments	28,794,206	22,517,020
Net Cash from Investing Activities	42,808	1,902,874
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	500,453	-
Net Change in Cash and Cash Equivalents	24,151	(48,358)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	290,730	339,088
End of year	\$ 314,881	\$ 290,730

#### NON CASH OPERATING ACTIVITY

Deferred compensation payments of \$28,760 were used to satisfy the promissory note receivable during the years ended June 30, 2018 and 2017

See notes to financial statements

## **Auburn Theological Seminary**

Notes To Financial Statements  
June 30, 2018

### **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 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.

#### ***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 Theological Seminary**

Notes To Financial Statements  
June 30, 2018

### **1. Organization and Tax Status (*continued*)**

#### ***Educational Approach and Areas of Programmatic Focus (continued)***

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 individuals 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, 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 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.

The Auburn Senior Fellows program equips and supports more than twenty top faith-rooted justice leaders so they may expand their national impact on critical social justice issues such as racism and gun violence.

Auburn regularly offers cohort leadership learning programs. 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 is a leadership and spiritual formation program for organizers, seminary students, clergy, and nonprofit staff. Resiliency Fellows come together to work on the self-care and communal-care aspects of long term movement work. Gatherings for emerging leaders provide a chance for multifaith leaders to strengthen their approach to justice work. Auburn's training programs help leaders deepen their practice in such areas as social media, bridging divides, storytelling and public narrative, self-care, creative activism, and media and messaging.

## Auburn Theological Seminary

Notes To Financial Statements  
June 30, 2018

### 1. Organization and Tax Status (*continued*)

#### **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. Recent major studies have explored the use of distance education in theological schools and the role of field education in theological trainings. 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 Auburn-CrossCurrents Research Colloquium convenes religion scholars, sociologists, clergy, activists and others for scholarly research and exploration on contemporary critical concerns. The Walter Wink Scholar Activist Award, given annually at the American Academy of Religion conference, recognizes inspiring scholars who effectively connect their scholarship and academic platform to today's social concerns.

#### **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. 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.

Auburn produces a podcast called *Fortification* that explores the spiritual aspects of social change work and an online blogging platform called *Voices* to lift up varied multifaith social justice voices.

## **Auburn Theological Seminary**

Notes To Financial Statements  
June 30, 2018

### **1. Organization and Tax Status (*continued*)**

#### ***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, immigration reform, human trafficking, working for a moral economy, countering Islamophobia and xenophobia, achieving LGBTQ equality, and protecting the dignity of marginalized people. 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. Auburn maintains relationships with grassroots movement leaders across the United States and works with them to strengthen social movements, provide spiritual support, and connect faith communities to social change campaigns.

#### ***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 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.

## **Auburn Theological Seminary**

Notes To Financial Statements  
June 30, 2018

### **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.

#### ***Investment Valuation and Income Recognition***

U.S. GAAP guidance provides for the use of Net Asset Value (“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.

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.

#### ***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.

Pursuant to U.S. GAAP guidance, alternative investments where fair value is measured using NAV are not categorized within the fair value hierarchy.

## **Auburn Theological Seminary**

Notes To Financial Statements  
June 30, 2018

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

#### ***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 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 are written off against the allowance for doubtful accounts only after all reasonable collection efforts have been exhausted.

## **Auburn Theological Seminary**

Notes To Financial Statements  
June 30, 2018

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

#### ***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.

Leasehold improvements and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value. There were no asset impairments for the year ended June 30, 2018.

#### ***Artwork***

Auburn has a collection of artwork, appraised at approximately \$188,000 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, 2018

### **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.

#### ***Reclassifications***

Certain amounts in the June 30, 2017 financial statements have been reclassified to conform to the June 30, 2018 presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

#### ***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, 2015.

#### ***Prior Year Summarized Comparative Information***

Information as of and for the year ended June 30, 2017 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, 2017, 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 18, 2018.

## Auburn Theological Seminary

Notes To Financial Statements  
June 30, 2018

### 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, receivables 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 receivables 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, 2018, receivables from three donors and three contributions represented approximately 58% and 55% of Auburn's total receivable at year-end and gifts and grants balance for the year.

### 4. Contributions and Grants Receivable

Contributions receivable at June 30, 2018 are summarized as follows:

2019	\$ 4,143,359
2020	506,250
2021	506,250
2022	481,603
2023	525,000
Thereafter	<u>500,000</u>
	6,662,462
Less discount to present value	<u>(211,118)</u>
Present value of contributions receivable	<u>\$ 6,451,344</u>

Grants receivable at June 30, 2018 are summarized as follows:

2019	\$ 875,348
2020	<u>155,905</u>
	1,031,253
Less discount to present value	<u>(4,143)</u>
Present value of grants receivable	<u>\$ 1,027,110</u>

A present value discount using a rate of 2.73% 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.



## Auburn Theological Seminary

Notes To Financial Statements  
June 30, 2018

### 5. Investments

The following summarizes the investments held by Auburn as of June 30, 2018:

	<u>Fair Value</u>
Cash and cash equivalents	\$ 906,321
Mutual funds	15,495,195
Real estate funds	1,641,295
Fund of funds	<u>2,230,037</u>
	<u>\$ 20,272,848</u>

The following summarizes investment return for the year ended June 30, 2018:

Interest and dividends	\$ 589,019
Realized and unrealized gain on investments	<u>441,662</u>
	<u>\$ 1,030,681</u>
Allocated investment return:	
Budgetary allocation of investment return	\$ 636,364
Investment return on restricted funds	<u>363,636</u>
	1,000,000
Non-allocated investment return	<u>30,681</u>
	<u>\$ 1,030,681</u>

Total investment advisory fees for fiscal year 2018 amounted to \$15,444 and are included in professional fees.

## Auburn Theological Seminary

Notes To Financial Statements  
June 30, 2018

### 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, 2018, grouped by the fair value hierarchy:

	Level 1	Level 3	Investments Valued Using NAV (*)	Total
Mutual Funds	\$ 15,495,195	\$ -	\$ -	\$ 15,495,195
Real estate funds	1,641,295	-	-	1,641,295
Fund of Funds				
Long/short equity	1,122,387	-	77,793	1,200,180
Multi strategy	1,029,857	-	-	1,029,857
Total Investments at Fair Value	<u>19,288,734</u>	-	<u>77,793</u>	<u>19,366,527</u>
Investment cash and cash equivalents, at cost	-	-	-	906,321
Beneficial interest in perpetual trust	-	112,362	-	112,362
Total	<u>\$ 19,288,734</u>	<u>\$ 112,362</u>	<u>\$ 77,793</u>	<u>\$ 20,385,210</u>

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

The table below sets forth a summary of changes in the fair value of the Level 3 assets for the year ended June 30, 2018:

	Beneficial Interest in Perpetual Trust
Balance, beginning of year	\$ 110,160
Total unrealized appreciation relating to instruments still held at the reporting date included in earnings	<u>2,202</u>
Balance, end of year	<u>\$ 112,362</u>

## Auburn Theological Seminary

Notes To Financial Statements  
June 30, 2018

### 6. Fair Value Measurements *(continued)*

Information regarding alternative investments measured at NAV using the practical expedient at June 30, 2018 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Long/short equity (see "a" below)	\$ <u>77,793</u>	\$ <u>          </u> -	Quarterly	95 Days

- a. 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).

### 7. Leasehold Improvements and Equipment

Leasehold improvements and equipment consist of the following at June 30, 2018:

Leasehold improvements	\$ 1,559,537
Furniture and equipment	290,452
Website development costs	332,086
Construction in progress	<u>571,009</u>
	2,753,084
Less: accumulated depreciation and amortization	<u>909,059</u>
	<u>\$ 1,844,025</u>

## Auburn Theological Seminary

Notes To Financial Statements  
June 30, 2018

### 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 2018 is reflected in the statement of activities as a nonoperating gain totaling \$2,202.

### 9. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and the purposes for which such net assets may be used are as follows:

Equipping leaders	\$ 5,629,082
Research	1,430,221
New office space	<u>1,039,626</u>
	<u>\$ 8,098,929</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, 2018 are as follows:

Equipping leaders	\$ 1,326,700
Research	408,300
New office space	<u>155,577</u>
	<u>\$ 1,890,577</u>

### 10. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2018 are endowed for the following purposes:

Equipping leaders	\$ 3,029,003
Research	<u>5,134,671</u>
	<u>\$ 8,163,674</u>

## **Auburn Theological Seminary**

Notes To Financial Statements  
June 30, 2018

### **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 an endowment.

#### ***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.

## Auburn Theological Seminary

Notes To Financial Statements  
June 30, 2018

### 11. Endowment Funds *(continued)*

#### ***Return Objectives, Strategies Employed and Spending Policy (continued)***

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.

#### ***Endowment Net Asset Composition by Type of Fund***

The following table summarizes the activity of the endowment funds for the year ended June 30, 2018 according to the purposes for which their income may be used:

	Board Designated Endowment Fund	Temporarily Restricted	Permanently Restricted	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance, June 30, 2017	\$ 10,887,585	\$ 702,160	\$ 8,048,578	\$ 19,638,323
Interest and dividends	353,073	228,801	1,548	583,422
Realized and unrealized gain	270,670	175,403	1,186	447,259
Appropriation for expenditure	<u>(636,364)</u>	<u>(363,636)</u>	<u>-</u>	<u>(1,000,000)</u>
Balance, June 30, 2018	<u>\$ 10,874,964</u>	<u>\$ 742,728</u>	<u>\$ 8,051,312</u>	19,669,004
Other investments not held as an endowment				<u>716,206</u>
Total Investments				<u>\$ 20,385,210</u>
Comprised of the following:				
Donor restricted funds	\$ -	\$ 742,728	\$ 8,051,312	\$ 8,794,040
Board designated funds	<u>10,874,964</u>	<u>-</u>	<u>-</u>	<u>10,874,964</u>
Total Funds	<u>\$ 10,874,964</u>	<u>\$ 742,728</u>	<u>\$ 8,051,312</u>	19,669,004
Other investments not held as an endowment				<u>716,206</u>
Total Investments				<u>\$ 20,385,210</u>

#### ***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, 2018.

## Auburn Theological Seminary

Notes To Financial Statements  
June 30, 2018

### 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, 2018 is \$141,638.

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 \$31,285. During January 2017, a 2.5% rent increase was charged to Auburn, which raised the monthly payment to \$32,067.

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

2019	\$ 360,159
2020	360,159
2021	360,159
2022	360,159
2023	360,159
Thereafter	<u>390,172</u>
	<u>\$2,190,967</u>

#### *Line of Credit*

Auburn maintains a line of credit in the agreement amount of \$3,000,000 from JPMorgan Chase Bank, N.A. Borrowings under the line of credit are available in the form of advances intended to be used to meet normal short-term working capital needs. The advances are collateralized by Auburn's property, as defined in the agreement, and will bear interest at a rate generally based on the London-Interbank offered rate as calculated under the terms of the agreement.

During 2018, Auburn borrowed approximately \$500,000 from the line of credit which was repaid subsequent to year end.

## **Auburn Theological Seminary**

Notes To Financial Statements  
June 30, 2018

### **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 2018 totaled \$269,118.

\* \* \* \* \*