

Auburn Theological Seminary

Financial Statements

June 30, 2019

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, 2019, 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, 2019, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, Auburn Theological Seminary adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Auburn Theological Seminary's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, after the adjustments described in Note 14, is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

June 17, 2020

Auburn Theological Seminary

Statement of Financial Position June 30, 2019 (with comparative amounts at June 30, 2018)

| | 2019 | 2018 |
|--|--------------|--------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,010,651 | \$ 314,881 |
| Receivables | | |
| Contributions, net (Note 4) | 3,885,491 | 2,535,916 |
| Grants, net (Note 4) | 1,311,601 | 4,412,538 |
| Other | 1,383 | 24,477 |
| Prepaid expenses and other assets | 210,148 | 202,890 |
| Promissory note receivable (Note 11) | - | 28,760 |
| Investments (Notes 5 and 6) | 9,614,914 | 12,221,536 |
| Artwork | 198,500 | 188,000 |
| Leasehold improvements and equipment, net (Note 7) | 3,486,556 | 1,844,025 |
| Beneficial interest in perpetual trust (Notes 6 and 8) | 111,853 | 112,362 |
| Perpetually restricted investments (Notes 5, 6 and 9) | 8,053,715 | 8,051,312 |
| Total Assets | \$27,884,812 | \$29,936,697 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 482,947 | \$ 404,294 |
| Fiscal sponsorship | 248,220 | 375,879 |
| Line of credit (Note 12) | - | 500,453 |
| Deferred rent | 40,252 | 48,580 |
| Deferred compensation (Note 11) | - | 141,638 |
| Total Liabilities | 771,419 | 1,470,844 |
| Net Assets | | |
| Without Donor Restrictions | | |
| Undesignated | (2,385,544) | 1,328,286 |
| Board designated (Note 9) | 8,956,368 | 10,874,964 |
| Total Without Donor Restrictions | 6,570,824 | 12,203,250 |
| With donor restrictions (Notes 8 and 9) | 20,542,569 | 16,262,603 |
| Total Net Assets | 27,113,393 | 28,465,853 |
| | \$27,884,812 | \$29,936,697 |

See notes to financial statements

Auburn Theological Seminary

Statement of Activities Year Ended June 30, 2019 (with summarized totals for the year ended June 30, 2018)

| | <u>Net Assets Without Donor Restrictions</u> | | <u>Net Assets With Donor Restrictions</u> | <u>2019 Total</u> | <u>2018 Total</u> |
|---|--|-----------------------------|---|-----------------------|-----------------------|
| | <u>Undesignated</u> | <u>Board Designated</u> | | | |
| PUBLIC SUPPORT AND REVENUE | | | | | |
| Gifts and grants | \$ 840,068 | \$ - | \$ 5,166,241 | \$ 6,006,309 | \$ 7,624,693 |
| Special events | 575,486 | - | - | 575,486 | 622,470 |
| Tuition and fees | 175,144 | - | - | 175,144 | 202,934 |
| Allocated investment return | 600,000 | - | 400,000 | 1,000,000 | 1,000,000 |
| Fiscal sponsorships | 84,163 | - | - | 84,163 | 35,452 |
| Other | 15,648 | - | - | 15,648 | 31,408 |
| Net assets released from restrictions (Note 9) | 2,603,987 | - | (2,603,987) | - | - |
| Total Public Support and Revenue | <u>4,894,496</u> | <u>-</u> | <u>2,962,254</u> | <u>7,856,750</u> | <u>9,516,957</u> |
| EXPENSES | | | | | |
| Program Services | | | | | |
| Equipping leaders | 6,480,452 | - | - | 6,480,452 | 5,383,707 |
| Public engagement | - | - | - | - | 213,469 |
| Research | 1,012,106 | - | - | 1,012,106 | 805,483 |
| Total Program Services | <u>7,492,558</u> | <u>-</u> | <u>-</u> | <u>7,492,558</u> | <u>6,402,659</u> |
| Supporting Services | | | | | |
| Management and general | 733,641 | - | - | 733,641 | 943,774 |
| Fundraising and development | 471,761 | - | - | 471,761 | 845,147 |
| Direct cost of special events | 306,390 | - | - | 306,390 | 185,744 |
| Total Supporting Services | <u>1,511,792</u> | <u>-</u> | <u>-</u> | <u>1,511,792</u> | <u>1,974,665</u> |
| Total Expenses | <u>9,004,350</u> | <u>-</u> | <u>-</u> | <u>9,004,350</u> | <u>8,377,324</u> |
| Change in Net Assets before Nonoperating Activity | <u>(4,109,854)</u> | <u>-</u> | <u>2,962,254</u> | <u>(1,147,600)</u> | <u>1,139,633</u> |
| NONOPERATING ACTIVITY | | | | | |
| Change in beneficial interest in perpetual trust | - | - | (509) | (509) | 2,202 |
| Non-allocated investment return | - | (122,572) | (81,779) | (204,351) | 30,681 |
| Transfer of Board-designated assets to operating fund | 1,796,024 | (1,796,024) | - | - | - |
| Total Nonoperating Activity | <u>1,796,024</u> | <u>(1,918,596)</u> | <u>(82,288)</u> | <u>(204,860)</u> | <u>32,883</u> |
| Change in Net Assets | <u>(2,313,830)</u> | <u>(1,918,596)</u> | <u>2,879,966</u> | <u>(1,352,460)</u> | <u>1,172,516</u> |
| NET ASSETS | | | | | |
| Beginning of year, as restated | 1,328,286 | 10,874,964 | 16,262,603 | 28,465,853 | 27,293,337 |
| Redesignation | (1,400,000) | - | 1,400,000 | - | - |
| End of year | <u>\$ (2,385,544)</u> | <u>\$ 8,956,368</u> | <u>\$20,542,569</u> | <u>\$27,113,393</u> | <u>\$28,465,853</u> |

See notes to financial statements

Auburn Theological Seminary

Statement of Functional Expenses Year Ended June 30, 2019 (with summarized totals for the year ended June 30, 2018)

| | Program Services | | | Supporting Services | | | 2019 Total | 2018 Total |
|---|----------------------|---------------------|------------------------------|---------------------------|-----------------------------------|--------------------------------------|---------------------|---------------------|
| | Equipping Leaders | Research | Total Program Services | Management and General | Fundraising and Development | Direct Costs of Special Events | | |
| Salaries and wages | \$ 2,676,644 | \$ 481,736 | \$ 3,158,380 | \$ 161,844 | \$ 214,383 | \$ 38,067 | \$ 3,572,674 | \$ 3,549,692 |
| Payroll taxes and employee benefits | 796,140 | 142,748 | 938,888 | 74,907 | 64,128 | 12,547 | 1,090,470 | 1,025,295 |
| Professional fees and other contracted services | 1,274,314 | 97,058 | 1,371,372 | 136,693 | 38,337 | 61,887 | 1,608,289 | 1,515,252 |
| Marketing and communications | 145,439 | 27,388 | 172,827 | 23,255 | 6,780 | 39,548 | 242,410 | 306,374 |
| Office expenses | 31,288 | 5,949 | 37,237 | 5,333 | 5,162 | 1,171 | 48,903 | 198,716 |
| Equipment and information technology | 98,842 | 24,711 | 123,553 | 60,185 | 9,695 | 5,499 | 198,932 | 30,165 |
| Occupancy | 261,778 | 61,642 | 323,420 | 159,560 | 25,741 | 14,718 | 523,439 | 436,744 |
| Travel | 537,796 | 49,202 | 586,998 | 22,926 | 15,205 | 15,282 | 640,411 | 725,835 |
| Conferences, conventions and meetings | 187,648 | 44,691 | 232,339 | 11,790 | 13,846 | 32,710 | 290,685 | 260,361 |
| Depreciation and amortization | 243,757 | 17,627 | 261,384 | 46,293 | 7,311 | 4,123 | 319,111 | 179,813 |
| Insurance | 23,152 | 5,695 | 28,847 | 14,868 | 2,362 | 1,332 | 47,409 | 69,261 |
| Scholarship and grant awards | 84,261 | 4,482 | 88,743 | 3,517 | 1,003 | 1,505 | 94,768 | 79,389 |
| Miscellaneous | 3,451 | 858 | 4,309 | 101 | 2,210 | - | 6,620 | 407 |
| Bad debt | 115,942 | 48,319 | 164,261 | 12,369 | 65,598 | 78,001 | 320,229 | 20 |
| Total Expenses | \$ 6,480,452 | \$ 1,012,106 | \$ 7,492,558 | \$ 733,641 | \$ 471,761 | \$ 306,390 | \$ 9,004,350 | \$ 8,377,324 |

See notes to financial statements

Auburn Theological Seminary

Statement of Cash Flows Year Ended June 30, 2019 (with comparative amounts for the year ended June 30, 2018)

| | 2019 | 2018 |
|--|---------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$(1,352,460) | \$ 1,172,516 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation and amortization | 319,111 | 179,813 |
| Bad debt | 320,229 | 20 |
| Loss on disposal of equipment | - | 17,454 |
| Net realized and unrealized gain on investments | (300,894) | (226,371) |
| Net unrealized gain on investments held for deferred compensation | - | (215,291) |
| Change in beneficial interest in perpetual trust | 509 | (2,202) |
| Deferred rent | (8,328) | (3,198) |
| Changes in operating assets and liabilities | | |
| Receivables | 1,454,227 | (1,925,476) |
| Prepaid expenses and other assets | (7,258) | (59,494) |
| Accounts payable and accrued expenses | 78,653 | 197,870 |
| Fiscal sponsorship | (127,659) | 375,879 |
| Deferred compensation | (112,878) | (35,630) |
| Net Cash from Operating Activities | 263,252 | (524,110) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of leasehold improvements and equipment | (1,961,642) | (424,556) |
| Artwork | (10,500) | - |
| Purchase of investments | (12,459,650) | (29,077,358) |
| Investment proceeds receivable | - | 750,516 |
| Proceeds from sales of investments | 15,364,763 | 28,794,206 |
| Net Cash from Investing Activities | 932,971 | 42,808 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds (payments) from line of credit | (500,453) | 500,453 |
| Net Change in Cash and Cash Equivalents | 695,770 | 19,151 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 314,881 | 290,730 |
| End of year | \$ 1,010,651 | \$ 309,881 |

NON CASH OPERATING ACTIVITY

Deferred compensation payments of \$28,760 were used to satisfy the promissory note receivable during the years ended June 30, 2019 and 2018

See notes to financial statements

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2019

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, 2019

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 its 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, 2019

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, 2019

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, 2019

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.

Change in Accounting Principle

On July 1, 2018, Auburn adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires Auburn to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires Auburn to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

The changes have the following effect on net assets at June 30, 2018:

| Net Asset Classifications | ASU 2016-14 Classifications | | |
|-----------------------------------|-------------------------------|----------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total Net Assets |
| As Previously Presented: | | | |
| Unrestricted net assets | | | |
| Undesignated | \$ 1,328,286 | \$ - | \$ 1,328,286 |
| Board-designated | 10,874,964 | - | 10,874,964 |
| Temporarily restricted net assets | - | 8,098,929 | 8,098,929 |
| Permanently restricted net assets | - | 8,163,674 | 8,163,674 |
| Total Net Assets | <u>\$ 12,203,250</u> | <u>\$ 16,262,603</u> | <u>\$ 28,465,853</u> |

Cash and Cash Equivalents

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

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2019

2. Summary of Significant Accounting Policies (continued)

Investment Valuation and Income Recognition

Investments are carried at fair value.

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.

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 with donor restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are to be held in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restricted net assets are reclassified as without donor restricted 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, 2019

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 are 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.

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, 2019.

Artwork

Auburn has a collection of artwork, appraised at \$198,500 that is on public display. Artwork is not depreciated.

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. Net assets without donor restrictions are those currently available at the discretion of management and the Board of Directors for use in Auburn's operations. Net assets with donor restrictions are those stipulated by donors for specific purposes or time periods that will be met either by action of Auburn or passage of time or are amounts established by donor restricted gifts to provide a perpetual endowment.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2019

2. Summary of Significant Accounting Policies (continued)

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.

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. The expenses that are allocated include occupancy, depreciation, and amortization, salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort and headcount per department.

Reclassifications

Certain amounts in the June 30, 2018 financial statements have been reclassified to conform to the June 30, 2019 presentation.

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, 2016.

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2018 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, 2018, 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 June 17, 2020.

Auburn Theological Seminary

Notes To Financial Statements
June 30, 2019

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

Redesignation

In 2019, management reviewed a fund previously designated as without donor restrictions and based upon that review the fund was re-designated as a purpose restricted fund.

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. As of and for the year ended June 30, 2019, receivables from three donors and three contributions represented approximately 55% and 50% of Auburn's total receivables and gifts and grants.

4. Contributions and Grants Receivable

Contributions receivable at June 30, 2019 are summarized as follows:

| | |
|---|---------------------|
| 2020 | \$ 1,090,106 |
| 2021 | 697,842 |
| 2022 | 597,842 |
| 2023 | 636,368 |
| 2024 | 236,368 |
| Thereafter | <u>789,403</u> |
| | 4,047,929 |
| Less discount to present value | <u>(162,438)</u> |
| Present value of contributions receivable | <u>\$ 3,885,491</u> |

Grants receivable at June 30, 2019 are summarized as follows:

| | |
|------------------------------------|---------------------|
| 2020 | \$ 1,237,898 |
| 2021 | <u>75,000</u> |
| | 1,312,898 |
| Less discount to present value | <u>(1,297)</u> |
| Present value of grants receivable | <u>\$ 1,311,601</u> |

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Notes To Financial Statements
June 30, 2019

4. Contributions and Grants Receivable (*continued*)

A present value discount using a rate of 1.76% 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.

5. Investments

The following summarizes the investments held by Auburn as of June 30, 2019:

| | <u>Fair Value</u> |
|---------------------------|----------------------|
| Cash and cash equivalents | \$ 681,169 |
| Equities | 4,763,953 |
| Mutual funds | 9,955,500 |
| Real estate funds | 633,634 |
| Fund of funds | <u>1,634,373</u> |
| | <u>\$ 17,668,629</u> |

The following summarized investment return for the year ended June 30, 2019:

| | |
|---|-------------------|
| Interest and dividends | \$ 558,158 |
| Realized and unrealized gain on investments | 300,894 |
| Investment management fees | <u>(63,403)</u> |
| | <u>\$ 795,649</u> |
| Allocated investment return: | |
| Budgetary allocation of investment return | \$ 600,000 |
| Investment return on restricted funds | <u>400,000</u> |
| | 1,000,000 |
| Non-allocated investment return | <u>(204,351)</u> |
| | <u>\$ 795,649</u> |

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Notes To Financial Statements
June 30, 2019

6. Fair Value Measurements

The following are the classes and major categories of assets measured at fair value on a recurring basis, grouped by the fair value hierarchy as of June 30, 2019:

| | Level 1 | Level 3 | Total |
|---|----------------------|-------------------|----------------------|
| Equities | \$ 4,763,953 | \$ - | \$ 4,763,953 |
| Mutual Funds | 9,955,500 | - | 9,955,500 |
| Real estate funds | 633,634 | - | 633,634 |
| Fund of Funds | | | |
| Long/short equity | 666,289 | - | 666,289 |
| Multi strategy | 968,084 | - | 968,084 |
| Total Investments at Fair Value | 16,987,460 | - | 16,987,460 |
| Beneficial interest in perpetual trust | - | 111,853 | 111,853 |
| Total Assets at Fair Value | <u>\$ 16,987,460</u> | <u>\$ 111,853</u> | 17,099,313 |
| Investment cash and cash equivalents, at cost | | | 681,169 |
| Total | | | <u>\$ 17,780,482</u> |

Changes from the beginning to ending balances for investments measured at fair value using significant unobservable inputs (Level 3) consist only of changes in beneficial interest in perpetual trust reported on the accompanying statement of activities totaling (\$509) for the year ended June 30, 2019.

7. Leasehold Improvements and Equipment

Leasehold improvements and equipment consist of the following at June 30, 2019:

| | |
|--|--------------------|
| Leasehold improvements | \$4,071,819 |
| Furniture and equipment | 310,821 |
| Website development costs | <u>332,086</u> |
| | 4,714,726 |
| Less: accumulated depreciation and amortization | <u>1,228,170</u> |
| | <u>\$3,486,556</u> |

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Notes To Financial Statements
June 30, 2019

8. Net Assets With Donor Restrictions

Net assets with donor restrictions were available for the following purposes as of June 30, 2019:

Time or Purpose Restricted

| | |
|---|-------------------|
| Equipping leaders | \$ 3,365,425 |
| Research | 1,542,381 |
| General operations - time restricted | 3,268,271 |
| Supportive services | 330,000 |
| Accumulated earnings on donor endowment | 658,546 |
| New office space | <u>3,212,378</u> |
| | <u>12,377,001</u> |

Perpetually Restricted

| | |
|-------------------------------|----------------------|
| Equipping leaders | 2,917,933 |
| Research | 5,135,782 |
| Beneficial in perpetual trust | <u>111,853</u> |
| | <u>8,165,568</u> |
| | <u>\$ 20,542,569</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, 2019 are as follows:

| | |
|---|---------------------|
| Equipping leaders | \$ 929,119 |
| Research | 202,619 |
| General operations - time restricted | 260,994 |
| Supportive services | 292,420 |
| Accumulated earnings on donor endowment | 400,000 |
| New office space | <u>518,835</u> |
| | <u>\$ 2,603,987</u> |

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Notes To Financial Statements

June 30, 2019

9. Endowment Funds

General

Auburn's true endowment (also known as the perpetually 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 perpetually restricted net asset funds are either classified as time or purpose restricted or perpetually 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 perpetually 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 time or purpose 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 returns from long-term investments without donor restrictions 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 perpetually restricted net assets (a) the original value of the gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations of investment returns to the perpetual 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 perpetually restricted net assets is classified as time or purpose 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 without donor restrictions.

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 net assets with donor restrictions that must be held in perpetuity.

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Notes To Financial Statements
June 30, 2019

9. 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, 2019 according to the purposes for which their income may be used:

| | Board Designated Endowment Fund | Time or Purpose Restricted | Perpetually Restricted | Total |
|--|--|----------------------------------|---------------------------|----------------------|
| Balance, June 30, 2018 | \$ 10,874,964 | \$ 742,728 | \$ 8,051,312 | \$ 19,669,004 |
| Investment return, net | 477,428 | 315,818 | 2,403 | 795,649 |
| Appropriation for expenditure | (600,000) | (400,000) | - | (1,000,000) |
| Appropriation for operating activities | (1,796,024) | - | - | (1,796,024) |
| Balance, June 30, 2019 | <u>\$ 8,956,368</u> | <u>\$ 658,546</u> | <u>\$ 8,053,715</u> | <u>\$ 17,668,629</u> |
| Comprised of the following: | | | | |
| Donor restricted funds | \$ - | \$ 658,546 | \$ 8,053,715 | \$ 8,712,261 |
| Board designated funds | <u>8,956,368</u> | <u>-</u> | <u>-</u> | <u>8,956,368</u> |
| Total Funds | <u>\$ 8,956,368</u> | <u>\$ 658,546</u> | <u>\$ 8,053,715</u> | <u>\$ 17,668,629</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 perpetually restricted contribution. Auburn is not aware of any funds with deficiencies as of June 30, 2019.

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Notes To Financial Statements
June 30, 2019

10. Liquidity and Availability

The following reflects Auburn's financial assets as of June 30, 2019, reduced by amounts not available for general use within one year of that date because of contractual or donor-imposed restrictions or internal designations. Amounts available include the Board-approved appropriation from the endowment fund for the following year as well as donor restricted amounts that are available for general expenditure in the following year. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the Board of Directors approves that action.

| | |
|--|-----------------------|
| Financial Assets: | |
| Cash and cash equivalents | \$ 1,010,651 |
| Receivables | 5,197,092 |
| Investments | <u>17,668,629</u> |
| Total financial assets | <u>23,876,372</u> |
| Less amounts not available to be used within one year: | |
| Receivables - due in future years, net | 2,869,088 |
| Restricted by donor with time or purpose restrictions | 8,849,367 |
| Endowment funds | |
| Restricted by donor | 8,712,261 |
| Board designated | <u>8,956,368</u> |
| | <u>29,387,084</u> |
| Add: endowment fund appropriation for following year | <u>1,000,000</u> |
| Financial assets available to meet general expenditures over the next twelve months | <u>\$ (4,510,712)</u> |

As part of Auburn's liquidity management, Auburn monitors the status of its cash needs on a quarterly basis and liquidates any assets as necessary in order to provide funds for the operations of its programs. In the event of an unanticipated liquidity need, Auburn could draw upon its \$3,000,000 line of credit or from its Board-designated fund which amounted to \$8,956,368 at June 30, 2019.

11. Promissory Note Receivable-Deferred Compensation

Auburn offered its former President a deferred compensation plan as of July 1, 2009 with payments to be made between 2014 and 2018. Auburn's liability under this plan, including revisions entered into with the advice of counsel as a result of its charter amendment, was satisfied during fiscal 2019.

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Notes To Financial Statements

June 30, 2019

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

The revised deferred compensation plan included 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 called for equal principal repayments over a 5-year period beginning in fiscal 2015 and ending in fiscal 2019. The note, which was interest free and did not increase the amounts payable under the previous arrangement, was repaid by being withheld from the payments otherwise due to the former President under the existing deferred compensation agreement.

12. 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:

| | |
|------|--------------------|
| 2020 | \$ 397,536 |
| 2021 | 397,536 |
| 2022 | 397,536 |
| 2023 | 397,536 |
| 2024 | 331,280 |
| | <u>\$1,921,424</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.

As of and for the year ended June 30, 2019 Auburn did not have any borrowings against the line of credit agreement.

13. Retirement Benefits

Auburn sponsors a tax-deferred annuity plan for its permanent employees who have completed at least one year of service. Contributions to the plan are made at 10% of participants' gross salaries, up to the maximum amount allowed by the Internal Revenue Service. The pension expense for fiscal 2019 totaled \$268,395.

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Notes To Financial Statements
June 30, 2019

14. Restatement

During the year ended June 30, 2019, Auburn determined certain pledges were recorded prior to meeting certain required conditions to recognize the revenue during the fiscal year ended June 30, 2018.

Accordingly, amounts reported for contributions receivable and contributions have been restated in the 2019 financial statements now presented, and an adjustment has been made to net assets as of June 30, 2018, to correct the overstatement of revenue. The effect of this entry was a decrease of \$530,000 in contributions receivable, a \$530,000 decrease net assets without donor restrictions – undesignated, and a \$530,000 decrease in gifts and grants.

The above prior period adjustment consists of the following:

| | Previously Reported | Prior Period Adjustment | Restated Amount |
|--|------------------------|----------------------------|--------------------|
| Contributions, net | \$3,065,916 | \$ (530,000) | \$2,535,916 |
| Net assets without donor restrictions - undesignated | 1,858,286 | (530,000) | 1,328,286 |
| Gifts and grants | 8,154,693 | (530,000) | 7,624,693 |

15. Contingencies

From time to time, Auburn is involved in legal actions. Auburn believes the liabilities, if any, that may result from such actions will not have a materially adverse effect on Auburn's financial position.

16. Subsequent Events

Auburn's operations and financial performance may be affected by the recent coronavirus outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, Auburn may experience a disruption in operations as well as a decline in gifts and grants, special events and other revenue generating activities. The outbreak is likely to adversely affect Auburn's business, financial conditions and results of operations on an interim basis. In addition the COVID-19 pandemic has resulted in substantial volatility in the global financial markets. As a result, Auburn's investment portfolio has incurred a significant decline in its fair value. Because the value of Auburn's individual investments has and will fluctuate in response to changing market conditions, the amount of losses, if any, that will be recognized in subsequent periods, cannot be determined. The full duration and extent of the COVID-19 pandemic, related business and travel restrictions and changes to behavior intended to reduce its spread are uncertain as of the date these financial statements were available for issuance, as the pandemic continues to evolve globally. Therefore, the full extent of any adverse impact on the results of operations, financial position and cash flows in 2020 cannot be reasonably estimated at this time.

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Notes To Financial Statements
June 30, 2019

16. Subsequent Events (*continued*)

Auburn has, however, taken several steps to strengthen its financial position and to maintain financial liquidity and flexibility. Auburn applied for and has received a \$882,500 Paycheck Protection Program loan (the "PPP Loan") from the Small Business Administration through Independent Bank as well as a \$160,000 Economic Injury and Disaster loan. The PPP Loan matures in May 2022, has an interest rate of 1.0% per annum, and the majority of the principal amount outstanding is forgivable on July 31, 2020 if Auburn retains its current number of personnel and maintains the same working hours and pay rate for such personnel. To the extent Auburn reduces the number of employees or reduces their pay or working hours as compared to the same period in 2019, the amount of the PPP Loan that is forgivable shall be reduced by the amount of such reduction in pay to employees.

No payments on the PPP Loan are due until December 2020, at which point Auburn expects a significant portion of the PPP Loan to have already been forgiven.

* * * * *