DENVER SEMINARY

Financial Statements
With Independent Auditors' Report
For the Years Ended June 30, 2016 and 2015

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DENVER SEMINARY

Table of Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Denver Seminary
Littleton, Colorado

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Denver Seminary (the "Seminary"), which are comprised of the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider 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 Denver Seminary as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

EKS&H LLLP

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October 5, 2016
Denver, Colorado

DENVER SEMINARY

Statements of Financial Position

	June 30, 2016	June 30, 2015
Assets		
Cash	$ 491,888	$ 823,732
Restricted cash	521,319	506,572
Accounts receivable, net	161,888	211,898
Prepaid expenses and other assets	314,619	270,959
Investments	14,404,026	14,123,806
Trust assets	848,715	925,439
Property and equipment, net	20,014,901	20,933,246
Total assets	$ 36,757,356	$ 37,795,652
Liabilities and Net Assets		
Line-of-credit	$ 700,000	$ 300,000
Accounts payable and other liabilities	205,703	297,831
Deferred revenue	604,168	569,215
Capital lease obligations	388,244	568,738
Bonds payable, net	5,025,577	5,512,853
Interest rate swap	153,316	176,738
Gift annuity payable	261,247	279,617
Trust liability	613,509	686,614
Total liabilities	7,951,764	8,391,606
Commitments and contingencies		
Net assets		
Unrestricted	12,861,805	14,219,071
Unrestricted - Board-designated endowments	2,357,100	2,529,725
Total unrestricted	15,218,905	16,748,796
Temporarily restricted		
Irrevocable charitable trusts	225,262	241,669
Endowment funds	1,670,294	2,174,522
Term endowments	2,894,931	2,788,620
Projects	1,527,996	1,351,913
Total temporarily restricted	6,318,483	6,556,724
Permanently restricted		
Endowment funds	7,268,204	6,098,526
Total net assets	28,805,592	29,404,046
Total liabilities and net assets	$ 36,757,356	$ 37,795,652

See notes to financial statements.

DENVER SEMINARY

Statements of Activities

	For the Years Ended							
	June 30, 2016				June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support								
Tuition and fees	$ 7,363,220	$ -	$ -	$ 7,363,220	$ 7,925,787	$ -	$ -	$ 7,925,787
Scholarships and grants	(1,392,464)	-	-	(1,392,464)	(1,292,095)	-	-	(1,292,095)
Net tuition and fees	5,970,756	-	-	5,970,756	6,633,692	-	-	6,633,692
Contributions	1,029,187	1,873,603	1,169,678	4,072,468	787,744	2,180,149	337,987	3,305,880
Contributions-in-kind	350,619	-	-	350,619	-	-	-	-
Auxiliary services and other income	1,292,508	7,054	-	1,299,562	1,256,543	6,140	-	1,262,683
Total revenues and support	8,643,070	1,880,657	1,169,678	11,693,405	8,677,979	2,186,289	337,987	11,202,255
Net assets released from restrictions								
Net assets released from purpose restrictions	1,700,050	(1,700,050)	-	-	1,513,600	(1,513,600)	-	-
Transfer of net assets due to donor re-designation	-	-	-	-	-	18,614	(18,614)	-
Total revenues and support, net	10,343,120	180,607	1,169,678	11,693,405	10,191,579	691,303	319,373	11,202,255
Expenses								
Compensation and benefits	8,284,860	-	-	8,284,860	8,260,356	-	-	8,260,356
Travel, meals, and entertainment	390,134	-	-	390,134	360,454	-	-	360,454
Office	566,066	-	-	566,066	448,460	-	-	448,460
Maintenance and repairs	314,881	-	-	314,881	308,404	-	-	308,404
Utilities and telephone	290,923	-	-	290,923	314,960	-	-	314,960
Advertising and printing	324,158	-	-	324,158	324,072	-	-	324,072
Professional services	171,709	-	-	171,709	167,614	-	-	167,614
Interest	141,339	-	-	141,339	141,772	-	-	141,772
Other	301,365	-	-	301,365	247,585	-	-	247,585
Total expenses before depreciation and amortization	10,785,435	-	-	10,785,435	10,573,677	-	-	10,573,677
Change in net assets from operations before depreciation and amortization	(442,315)	180,607	1,169,678	907,970	(382,098)	691,303	319,373	628,578
Depreciation and amortization expense	1,425,436	-	-	1,425,436	1,330,552	-	-	1,330,552
Total change in net assets from operations	(1,867,751)	180,607	1,169,678	(517,466)	(1,712,650)	691,303	319,373	(701,974)
Other (loss) income								
Investment (loss) income	(45,707)	(402,441)	-	(448,148)	118,240	156,178	-	274,418
Mineral royalties income	438,603	-	-	438,603	339,717	-	-	339,717
Change in value of annuities and trusts	(78,458)	(16,407)	-	(94,865)	(75,656)	(7,969)	-	(83,625)
Gain on sale or disposal of fixed assets	-	-	-	-	4,469	-	-	4,469
Change in value of interest rate swap	23,422	-	-	23,422	-	-	-	-
Total other (loss) income	337,860	(418,848)	-	(80,988)	386,770	148,209	-	534,979
Change in net assets	(1,529,891)	(238,241)	1,169,678	(598,454)	(1,325,880)	839,512	319,373	(166,995)
Net assets, beginning of year	16,748,796	6,556,724	6,098,526	29,404,046	18,074,676	5,717,212	5,779,153	29,571,041
Net assets, end of year	$ 15,218,905	$ 6,318,483	$ 7,268,204	$ 28,805,592	$ 16,748,796	$ 6,556,724	$ 6,098,526	$ 29,404,046

See notes to financial statements.

DENVER SEMINARY

Statements of Cash Flows

	For the Years Ended June 30, 2016	2015
Operating activities		
Change in net assets	$ (598,454)	$ (166,995)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	1,425,436	1,330,552
Bad debt	37,121	1,048
Gain on disposal of property and equipment	-	(4,469)
Gift received of non-cash asset	(185,952)	-
Change in value of interest rate swap	(23,422)	-
Contributions for capital campaign	-	(20,000)
Net realized and unrealized losses on investments	882,009	108,409
Change in value of annuities and trusts	78,458	75,656
Gifts received for long-term purposes	(1,593,886)	(1,331,376)
Changes in operating assets and liabilities		
Accounts receivable	12,889	43,867
Prepaid expenses and other assets	(43,660)	28,547
Accounts payable and other liabilities	(92,128)	(7,372)
Deferred revenue	34,953	(291,987)
	531,818	(67,125)
Net cash used in operating activities	(66,636)	(234,120)
Investing activities		
Net change in restricted cash	(14,747)	(12,795)
Purchase of investments	(1,836,408)	(1,405,776)
Proceeds from sale of investments	677,798	502,553
Purchases of property and equipment	(313,415)	(368,599)
Net cash used in investing activities	(1,486,772)	(1,284,617)
Financing activities		
Draws on line-of-credit	400,000	300,000
Payments on capital lease obligations	(180,494)	(153,430)
Payments on bonds payable	(495,000)	(480,000)
Contributions for capital campaign	-	20,000
Gifts received for long-term purposes	1,593,886	1,331,376
Payments on annuities	(96,828)	(96,791)
Net cash provided by financing activities	1,221,564	921,155
Net decrease in cash	(331,844)	(597,582)
Cash at beginning of year	823,732	1,421,314
Cash at end of year	$ 491,888	$ 823,732

Supplemental disclosure of cash flow and non-cash information:

Interest paid was $144,224 and $144,469 for the years ended June 30, 2016 and 2015, respectively.

During 2015, the Seminary financed $314,210 of property and equipment additions through capital leases and $93,750 through accounts payable.

See notes to financial statements.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

Organization

Denver Seminary (the "Seminary"), a non-profit organization, offers the Doctor of Ministry, Master of Divinity ("M.Div."), and Master of Arts ("M.A.") degrees from its campuses in Littleton, Colorado, Amarillo, Texas, and Landover, Maryland, in a variety of formats. Emphases are offered in biblical studies, philosophy of religion, counseling, educational ministries and administration, world Christianity, and youth and family ministries.

The Doctor of Ministry degree is an applicational degree. Students learn how to apply knowledge effectively in their ministry. Men and women in ministry improve their skills and enlarge their vision in order to be effective in ministry at the doctoral level. Research is carried through to action.

The M.Div. degree is designed primarily to prepare persons for church ministries requiring ordination. It also prepares students for doctoral-level studies in many theological schools. As the standard ministerial degree program, its depth and scope equip students for varied church and mission vocations. The M.Div. degree program consists of core courses (with some flexibility built into that core), and the balance of the hours are either open electives or a combination of an optional concentration and open electives for a total of 78 semester hours.

The M.A. program is intended primarily for students who plan to engage in Christian service requiring training different from the Master of Divinity degree. By studying intensively in an area of specialization, the student will be equipped to serve in a specific capacity needed in the Christian community. All M.A. degrees include a basic 27-hour core curriculum giving students a solid biblical and theological foundation for their specialization. A dozen specialized majors and concentrations are offered in the M.A. program to enable students to achieve their career goals. M.A. programs range from 50 hours to 60 hours in length.

The Seminary also offers a number of master's level certificate programs ranging in length from 10 to 24 hours.

The Seminary is accredited by the Association of Theological Schools and the Higher Learning Commission of the North Central Association of Colleges and Schools. Its M.A. counseling (licensure) program is further accredited by the Council for Accreditation of Counseling and Related Educational Programs. Denver Seminary is also accredited to offer CPE training by the Association for Clinical Pastoral Education and has been approved by the same organization as a Clinical Pastoral Education ("CPE") training center. The center offers CPE Level I, Level II, and supervisory education CPE units for matriculated Seminary students.

Basis of Presentation

The Seminary is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Unrestricted net assets represent those net assets whose use is not restricted by the donors; however, their use may be limited by Board of Trustees ("Board") designation. Included in unrestricted net assets are resources that are used to support current operations, including property and equipment.

Temporarily restricted net assets represent donor-restricted contributions for specified purposes and resources provided through irrevocable trusts subject to the expiration of time restrictions on beneficial interests to other parties. Income related to trusts is recognized in the temporarily restricted class of net assets upon establishment of irrevocable trusts where the Seminary is the trustee and beneficiary. Trust assets are transferred to the unrestricted class of net assets upon the death of the income beneficiary. Temporarily restricted net assets also include cumulative earnings on permanently restricted endowments that have not been appropriated for expenditure as well as term endowments that will be distributed over a 15-20 year period.

Permanently restricted net assets are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity, and only the income may be utilized.

Cash

Cash consists of checking accounts held at financial institutions and petty cash accounts and excludes cash held for reinvestment as part of the investment portfolio. As of the statement of financial position date, and periodically throughout the year, the Seminary maintained balances in various operating accounts in excess of federally insured limits.

Restricted Cash

Restricted cash consists of checking accounts held at a financial institution to be used solely for payments of principal and interest on the bonds, as described in Note 8. Certain balances must be maintained to comply with bond covenants. There have been no violations of restricted balances in accordance with the bond covenants.

Accounts Receivable

Accounts receivable consist primarily of amounts due from students for tuition and are recorded net of an allowance for doubtful accounts of $20,000 as of June 30, 2016 and 2015. The allowance for doubtful accounts is valued based on the aging of the accounts receivable at year-end. The provision for uncollectible amounts is continually reviewed by management and adjusted to maintain the allowance at a level considered adequate to cover future losses.

Accounts over $400 are forwarded to collections within 90 days of the account being deemed uncollectible. These amounts are written off as bad debt at the time they are forwarded to collections.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Investments and Trust Assets

The Seminary is required to report investments in equity securities with readily determinable fair values based on current market quotations, and all investments in debt securities at their fair values with unrealized gains and losses included in the statements of activities.

Fair Value

The Seminary has adopted an established framework for measuring fair value and requires enhanced disclosures about fair value measurements. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Once fair value is determined for these assets and liabilities, a hierarchy is established, and these assets and liabilities are grouped based on significant levels of inputs.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Property and Equipment

Property and equipment is stated at cost on the date of acquisition, or fair value at the date of donation in the case of gifts. The Seminary capitalizes fixed asset purchases and donations greater than $1,000. Depreciation on property and equipment is computed by the straight-line method over the following estimated useful lives of the assets:

Buildings and improvements	10-40 years
Land improvements	10-20 years
Equipment and furnishings	3-10 years
Library books	10 years

Long-Lived Assets

The Seminary reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Seminary looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired. No adjustments for impairment have been recognized during each of the years ended June 30, 2016 and 2015.

Deferred Bond/Financing Costs

Bond financing costs and bond discounts are deferred and amortized over the term of the related bonds, which is 30 years using the straight-line method, which approximates the effective interest method. These amounts are netted against bonds payable (Note 8) in the statements of financial position. There was $7,724 in amortization of the bond costs during each of the years ended June 30, 2016 and 2015.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Gift Annuity Payable

The Seminary has established a gift annuity plan whereby donors may contribute assets to the Seminary in exchange for the right to receive a fixed dollar annual return during their lifetimes. The difference between the assets contributed and the present value of the annuity liability is recognized as a contribution. The annuity liability is revalued annually based upon actuarially computed present values.

Revocable Trusts

As trustee, the Seminary administers revocable (grantor) trusts that provide for a beneficial interest to the Seminary at the grantor's death. Because the trusts are revocable at the discretion of the grantor, the principal amounts provided are recorded as liabilities at the fair market value. The remaining trust assets will be recorded in the statements of activities as contributions when the agreements become irrevocable or when the assets are distributed to the Seminary for its unconditional use.

Irrevocable Trusts

As trustee, the Seminary administers irrevocable trusts, charitable remainder unitrusts, and charitable remainder annuity trusts. These trusts provide for the payment of lifetime distributions to the grantor or other designated beneficiaries. A liability is recorded for the present value of estimated future payments due to beneficiaries using a discount rate of 7%. The recorded amount of trust assets and liabilities changes each year as a result of changes in the market value of the trust assets, earnings, payments to current beneficiaries, and changes in actuarial assumptions. The net effect of those changes are recorded as a change in value of annuities and trusts each year in the statements of activities. Upon the death of the lifetime beneficiaries, any remaining amounts in the asset or liability accounts are also recognized as a change in value in the statements of activities.

Revenue and Support

Tuition and fees income is recognized when earned. Tuition deposits and prepayments are deferred and recognized as revenue in the applicable future period when the related services are provided and expenses are incurred.

The Seminary records contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when cash or ownership of donated assets is unconditionally promised to the Seminary. Amounts of temporarily restricted contributions are subsequently released to unrestricted net assets when expenses have been incurred in satisfaction of those restrictions.

In-kind contributions include voluntary donated services and donated use of facilities at the Maryland and Texas campus locations. Amounts are reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and that would typically be purchased if not provided. The amount of donated services is reported as in-kind contributions on the statements of activities.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Revenue and Support (continued)

Auxiliary services and other income consist mainly of apartment rent. Revenue relating to rent is recognized when earned.

Functional Expenses

Expenses incurred directly for a program service are charged to such service. Fringe benefits are allocated to all services on a pro rata basis of total direct salary expenses incurred. Allocations of certain overhead and depreciation costs are also allocated to program services and supporting activities proportionately based on the percentage of full-time employees and percentage of total space occupied by each service.

Income Taxes

The Seminary was incorporated as a church and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Seminary is not a private foundation within the meaning of Section 509(a) of the Code.

The Seminary follows a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2016 and 2015.

If incurred, interest and penalties associated with tax positions would be recorded in the period assessed as miscellaneous administrative expense. No interest or penalties have been assessed as of June 30, 2016 and 2015.

Advertising Costs

The Seminary uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense totaled $132,028 and $99,805 for the years ended June 30, 2016 and 2015, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Seminary has evaluated all subsequent events through the auditors' report date, which is the date the financial statements were available for issuance, and has identified no events requiring disclosure.

Note 2 - Investments

Investments consist of the following:

	June 30, 2016	June 30, 2015
Money market mutual funds	$ 112,128	$ 95,985
Equity securities funds	9,717,243	9,302,104
Bonds and government securities funds	2,827,990	2,825,014
Alternatives	1,746,665	1,900,703
Total	$ 14,404,026	$ 14,123,806

Investment (loss) income consists of the following:

	June 30, 2016	June 30, 2015
Interest, dividends, and mineral royalties, net	$ 872,464	$ 722,544
Net realized and unrealized losses	(882,009)	(108,409)
Total	$ (9,545)	$ 614,135

The Seminary incurred investment management fees of $41,438 and $41,271 for the years ended June 30, 2016 and 2015, respectively. These fees are netted against interest and dividends.

Note 3 - Fair Value Measurements

The carrying amounts reported in the statements of financial position for cash, restricted cash, accounts receivable, prepaid expenses and other assets, accounts payable, and certain other liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. The following methods and assumptions were used by the Seminary in estimating the fair value of its other financial instruments:

Assets held in charitable remainder trusts and charitable lead annuity trusts – The fair value of assets held in charitable remainder trusts and charitable lead trusts is determined by the fair value of the underlying investments held by the Seminary, which are securities valued as described below.

Bonds payable – The fair value of the bonds payable approximates the carrying value since the stated rates are similar to rates currently available to the Seminary for debt with similar terms and remaining maturities.

Interest rate swap – The fair value of the interest rate swap uses a model that employs an income valuation approach by calculating the present value of future expected cash flow using discount factors based on market interest rates.

Note 3 - Fair Value Measurements (continued)

The Seminary has a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring financial assets at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured on a recurring basis and reported at fair value are classified and disclosed in one of the following categories:

Level 1: Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments generally included in Level 1 include mutual funds, listed equities, listed derivatives, and certain alternative investments. For the Seminary, Level 1 investments consist of money market mutual funds, equity, and bond and government securities funds.

Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate and government bonds, less liquid and restricted equity securities, and certain over-the-counter derivatives. For the Seminary, Level 2 investments consist of equity, bond and government securities funds, and alternative investments.

Level 3: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnerships and private equity funds, which in turn invest in equities, hedge funds, and long/short funds. For the Seminary, Level 3 investments consist of an annuity and an interest rate swap.

Fair value for beneficial interest in charitable trusts (Level 3) is based on the total of the contract less the principal payments received.

There were no changes in valuation techniques during the year.

Note 3 - Fair Value Measurements (continued)

The following table summarizes the Seminary's fair value hierarchy levels as of June 30, 2016:

	Fair Value	Level 1	Level 2	Level 3
Assets				
Money market mutual funds	$ 115,012	$ 115,012	$ -	$ -
Equity securities				
Multi-strategy	1,077,948	-	1,077,948	-
Large-cap	3,801,476	3,801,476	-	-
Mid-cap	956,400	956,400	-	-
Small-cap	412,761	412,761	-	-
International value funds	2,131,718	2,131,718	-	-
Emerging markets	841,022	841,022	-	-
Commodities	699,042	699,042	-	-
Master limited partnerships	374,155	374,155	-	-
Total equity securities	10,294,522	9,216,574	1,077,948	-
Bonds and government securities				
Multi-strategy	510,714	-	510,714	-
Fixed income	846,737	846,737	-	-
High yield fixed income	409,136	409,136	-	-
Floating rate corporate loans	1,211,116	1,211,116	-	-
Total bonds and government securities	2,977,703	2,466,989	510,714	-
Alternative investments				
Low correlated hedge funds	1,865,504	155,347	1,710,157	-
Total alternative investments	1,865,504	155,347	1,710,157	-
Total assets	$ 15,252,741	$ 11,953,922	$ 3,298,819	$ -
Liabilities				
Interest rate swap	$ 153,316	$ -	$ -	$ 153,316
Total liabilities	$ 153,316	$ -	$ -	$ 153,316

The changes in the financial assets and liabilities for which the Seminary has used Level 3 inputs to determine fair value are as follows:

	Annuity	Interest Rate Swap
June 30, 2015 balance	$ -	$ (176,738)
Distributions	-	-
Total unrealized gains	-	23,422
June 30, 2016 balance	$ -	$ (153,316)

Note 3 - Fair Value Measurements (continued)

The following table summarizes the Seminary's fair value hierarchy levels as of June 30, 2015:

	Fair Value	Level 1	Level 2	Level 3
Assets				
Money market mutual funds	$ 98,631	$ 98,631	$ -	$ -
Equity securities				
Multi-strategy	1,108,825	-	1,108,825	-
Large-cap	3,324,682	3,324,682	-	-
Mid-cap	915,391	915,391	-	-
Small-cap	393,137	393,137	-	-
International value funds	2,060,038	2,060,038	-	-
Commodities	675,295	675,295	-	-
Emerging markets	795,968	795,968	-	-
Master limited partnerships	651,995	651,995	-	-
Total equity securities	9,925,331	8,816,506	1,108,825	-
Bonds and government securities				
Multi-strategy	489,088	-	489,088	-
Fixed income	888,460	888,460	-	-
High yield fixed income	401,751	401,751	-	-
Floating rate corporate loans	1,209,468	1,209,468	-	-
Total bonds and government securities	2,988,767	2,499,679	489,088	-
Alternative investments				
Low correlated hedge funds	2,036,516	179,818	1,856,698	-
Total alternative investments	2,036,516	179,818	1,856,698	-
Total assets	$ 15,049,245	$ 11,594,634	$ 3,454,611	$ -
Liabilities				
Interest rate swap	$ 176,738	$ -	$ -	$ 176,738
Total liabilities	$ 176,738	$ -	$ -	$ 176,738

The changes in the financial assets and liabilities for which the Seminary has used Level 3 inputs to determine fair value are as follows:

	Annuity	Interest Rate Swap
June 30, 2014 balance	$ 2,553	$ (176,738)
Distributions	(2,553)	-
June 30, 2015 balance	$ -	$ (176,738)

Note 3 - Fair Value Measurements (continued)

Investments in certain entities that calculate net asset value per share are as follows:

Fund Description	June 30, 2016 Fair Value	June 30, 2015 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Skybridge Multi-Adviser Hedge Fund	$ 988,277	$ 1,004,132	None	Quarterly	65 days
Lighthouse Global Long/Short Fund	721,880	852,566	None	Monthly or Quarterly	60 to 90 days
	$ 1,710,157	$ 1,856,698			

These funds employ a strategy to achieve capital appreciation by investing in a range of trading strategies, including equity and debt funds, in order to diversify risk and reduce volatility. The fair values of the investments have been calculated using the net asset value per share of the investments.

Note 4 - Investment in Endowments

The Seminary's endowments consist of various individual funds established for a variety of purposes. Its endowments include Board-designated, term endowments, and donor-restricted endowment funds for scholarships, lectureships, academic chairs, and other purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of the Seminary has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Seminary classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Seminary in a manner consistent with the standard of prudence prescribed by UPMIFA.

Note 4 - Investment in Endowments (continued)

Interpretation of Relevant Law (continued)

In accordance with UPMIFA, the Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund,

(2) The purposes of the Seminary and the donor-restricted endowment fund,

(3) General economic conditions,

(4) The possible effect of inflation and deflation,

(5) The expected total return from income and the appreciation of investments,

(6) Other resources of the Seminary, and

(7) The investment policies of the Seminary.

Return Objectives and Risk Parameters

The Seminary has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowments' assets. Endowment assets include those assets of donor-restricted funds that the Seminary must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board, the endowment assets are invested to provide safety through diversification in a portfolio of money market mutual funds, securities, and bonds, which may reflect varying risks and rates of return. The Seminary expects its endowment funds, over time, to provide an average rate of return matching the Consumer Price Index plus 5%, after all management, trustee, and custodian fees. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Seminary relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Seminary targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Note 4 - Investment in Endowments (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Seminary has a policy of appropriating for distribution each year no more than 5% of the trailing three-year average of each fund's total asset value. In establishing this policy, the Seminary considered the long-term expected return on its endowments. Accordingly, over the long term, the Seminary expects the current spending policy to allow its endowments to grow at an average of 3% annually. This is consistent with the Seminary's objective to maintain the purchasing power of the endowments' assets held in perpetuity, or for a specified term, as well as provide additional real growth through new gifts and investment return.

Invested Endowment Net Asset Composition by Type of Fund as of June 30, 2016

	Unrestricted Board-Designated	Term Endowments	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds for scholarships	$ -	$ 1,115,945	$ 667,961	$ 3,767,470	$ 5,551,376
Donor-restricted endowment funds for lectureships	-	-	101,791	308,028	409,819
Donor-restricted endowment funds for Academic Chairs	-	-	796,321	1,812,949	2,609,270
Donor-restricted endowment funds for other purposes	-	1,778,986	104,221	1,379,757	3,262,964
Board-designated endowment funds	2,357,100	-	-	-	2,357,100
Total funds	$ 2,357,100	$ 2,894,931	$ 1,670,294	$ 7,268,204	$14,190,529

DENVER SEMINARY

Notes to Financial Statements

Note 4 - Investment in Endowments (continued)

Changes in Invested Endowment Net Assets for the Year Ended June 30, 2016

	Unrestricted Board-Designated	Term Endowments	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 2,529,725	$ 2,788,620	$ 2,174,522	$ 6,098,526	$13,591,393
Investment return					
Investment income	62,505	132,912	277,287	-	472,704
Realized losses	(13,259)	(3,309)	(6,903)	-	(23,471)
Net depreciation	(96,319)	(259,999)	(542,425)	-	(898,743)
Total investment return	(47,073)	(130,396)	(272,041)	-	(449,510)
Contributions	-	424,207	-	1,169,678	1,593,885
Appropriation of endowment assets for expenditure	(125,552)	(187,500)	(232,187)	-	(545,239)
Endowment net assets, end of year	$ 2,357,100	$ 2,894,931	$ 1,670,294	$ 7,268,204	$14,190,529

Invested Endowment Net Asset Composition by Type of Fund as of June 30, 2015

	Unrestricted Board-Designated	Term Endowments	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds for scholarships	$ -	$ 740,800	$ 954,139	$ 3,563,589	$ 5,258,528
Donor-restricted endowment funds for lectureships	-	-	124,106	308,028	432,134
Donor-restricted endowment funds for Academic Chairs	-	-	958,133	1,812,497	2,770,630
Donor-restricted endowment funds for other purposes	-	2,047,820	138,144	414,412	2,600,376
Board-designated endowment funds	2,529,725	-	-	-	2,529,725
Total funds	$ 2,529,725	$ 2,788,620	$ 2,174,522	$ 6,098,526	$13,591,393

Note 4 - Investment in Endowments (continued)

Changes in Invested Endowment Net Assets for the Year Ended June 30, 2015

	Unrestricted Board-Designated	Term Endowments	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 2,453,323	$ 1,912,389	$ 2,287,229	$ 5,779,153	$12,432,094
Investment return					
Investment income	66,668	86,228	228,112	-	381,008
Realized gains	5,791	6,657	17,610	-	30,058
Net appreciation (depreciation)	3,943	(50,043)	(132,386)	-	(178,486)
Total investment return	76,402	42,842	113,336	-	232,580
Contributions	-	993,389	-	337,987	1,331,376
Transfer of net assets due to donor re-designation	-	-	-	(18,614)	(18,614)
Appropriation of endowment assets for expenditure	-	(160,000)	(226,043)	-	(386,043)
Endowment net assets, end of year	$ 2,529,725	$ 2,788,620	$ 2,174,522	$ 6,098,526	$13,591,393

Note 5 - Charitable Trusts

Trust assets and liabilities are as follows:

	June 30, 2016	June 30, 2015
Trust assets		
Money market accounts	$ 2,884	$ 2,646
Equity securities funds	577,279	623,227
Bond and government securities funds	149,713	163,753
Alternatives	118,839	135,813
Total	$ 848,715	$ 925,439
Trust liabilities		
Irrevocable trusts	$ 26,136	$ 25,721
Revocable trusts	587,373	660,893
Total	$ 613,509	$ 686,614

Note 6 - Property and Equipment

Property and equipment consists of the following:

	June 30, 2016	June 30, 2015
Buildings and improvements	$ 23,393,613	$ 23,340,830
Land and land improvements	3,264,327	3,244,963
Equipment and furnishings	3,661,575	3,809,798
Library books	3,387,737	3,275,369
Art collection	185,952	-
	33,893,204	33,670,960
Less accumulated depreciation	(13,878,303)	(12,737,714)
Total	$ 20,014,901	$ 20,933,246

Depreciation expense was $1,417,712 and $1,322,828 for the years ended June 30, 2016 and 2015, respectively.

Note 7 - Capital Lease Obligations

The Seminary has acquired assets under the provisions of long-term leases. For financial reporting purposes, minimum lease payments relating to the assets have been capitalized. These leases expire between May 2018 and March 2019. Amortization of the leased property is included in depreciation and amortization expense.

The assets under capital lease have cost and accumulated amortization as follows:

	June 30, 2016	June 30, 2015
Cost	$ 755,717	$ 755,717
Less accumulated amortization	(542,152)	(155,451)
	$ 213,565	$ 600,266

Maturities of capital lease obligations are as follows:

Year Ending June 30,	
2017	$ 200,581
2018	168,554
2019	31,306
Total minimum lease payments	400,441
Less amount representing interest	(12,197)
Present value of net minimum lease payments	$ 388,244

Note 8 - Bonds Payable

In July 2004, the Seminary issued $9,500,000 in Colorado Educational and Cultural Facilities Authority (the "Authority") Variable Rate Demand Revenue Bonds Series 2004 ("Series 2004 Bonds"). The net proceeds were used to fund the construction of its new campus.

Principal is due annually and interest accrues at a variable rate (0.50% as of June 30, 2016) on approximately $379,000 of the balance and a fixed rate of 2.18% on the remaining balance under an interest swap agreement (Note 11). Interest on outstanding bonds is paid quarterly, and the bond agreement requires quarterly deposits into a bond payment account (1/4 of the annual principal reduction required) for reduction of principal on the bonds. Deposits are to commence quarterly. The first principal payment occurred July 1, 2006. In addition, certain financial covenants must be maintained by the Seminary.

	June 30, 2016	June 30, 2015
The Authority Series 2004 Bonds are net of a discount of $35,627 (June 30, 2016) and $37,606 (June 30, 2015); annual payments of principal starting July 1, 2006 and quarterly variable and fixed interest payments; mature July 1, 2034; secured by a letter-of-credit with a bank in the original amount of $9,500,000, now $5,200,418 (Note 10), which expires July 1, 2017, is renewable annually, and is collateralized by certain campus facilities, receivables, and other revenues of the Seminary.	$ 5,144,140	$ 5,639,140
Less unamortized bond/loan costs	(118,563)	(126,287)
	$ 5,025,577	$ 5,512,853

Aggregate maturities of the bonds payable are as follows:

Year Ending June 30,	
2017	$ 510,000
2018	520,000
2019	540,000
2020	555,000
2021	570,000
Thereafter	2,449,140
	$ 5,144,140

Note 9 - Line-of-Credit

The Seminary has entered into a line-of-credit agreement with a bank in the amount of $1,250,000 for short-term cash flow needs. The agreement expires November 28, 2016 and has a stated interest rate at *The Wall Street Journal* prime rate (3.5% at June 30, 2016) with no floor. The balance outstanding on the line-of-credit was $700,000 and $300,000 as of June 30, 2016 and 2015, respectively.

Note 10 - Letter-of-Credit

Upon issuance of the bonds, the Seminary obtained a letter-of-credit with a bank in the original amount of $9,500,000, now $5,200,418 (Note 8). The letter-of-credit renews each year until the Seminary or bond issuer terminates the letter-of-credit or the bonds are repaid. The stated amount of the letter-of-credit was decreased to coincide with the decreased amount of principal due as part of the latest renewal that occurred in July 2016, which extended the maturity date to July 1, 2017.

Note 11 - Interest Rate Swap Agreement

Effective January 1, 2014, the Seminary entered into an interest rate swap agreement with a notional amount of $4,765,000 at June 30, 2016 with the objective of providing cash flow consistency of a fixed rate while maintaining the flexibility of a variable-rate tax-free financing on the Seminary's bonds (Note 8). Under this agreement, the Seminary makes or receives payments based on the difference between the fixed interest rate of 2.18% and the floating rate of SIFMA Municipal Swap Index. The interest rate swap agreement contains a declining notional amount and matures July 2024.

The fair market value of the interest rate swap agreement at June 30, 2016 and 2015 was $153,316 and $176,738, respectively, which is reflected as a liability in the accompanying statements of financial position. There was a $23,422 change in fair market value of the interest rate swap agreement for the year ended June 30, 2016.

Note 12 - Land Lease Income

In May 2009, the Seminary entered into a land lease agreement with a third party that allows the third party to have drilling rights on the land. Drilling has been completed and the Seminary is paid one-sixth of the net proceeds received by the third party from the sale of such substances extracted from the land. The Seminary received proceeds under the agreement of $438,603 and $339,717 for the years ended June 30, 2016 and 2015, respectively.

Note 13 - Benefit Plan

The Seminary has established a defined contribution benefit plan (the "Plan"), which operates under Section 403(b) of the Code. All non-student Seminary employees working over 1,000 hours per year are eligible to participate in the Plan. Employee contributions are allowed up to the limit imposed by the Code, and the Seminary matched 100% of full-time employee contributions up to 5% of salary. All contributions to the Plan are fully vested. Plan costs totaled $266,068 and $258,494 for the years ended June 30, 2016 and 2015, respectively.

Note 14 - Functional Allocation of Expenses

The costs of providing various program services and supporting activities have been summarized on a functional basis. Accordingly, certain costs, such as depreciation and salaries, have been allocated among the programs and supporting activities benefited. Expenses have been allocated as follows:

	Years Ended June 30,	
	2016	2015
Program services		
Instruction	$ 5,540,730	$ 5,345,580
Public service	428,794	337,823
Academic support	1,801,655	1,757,164
Auxiliary enterprises	877,185	905,645
Student services	1,663,857	1,666,978
	10,312,221	10,013,190
Supporting activities		
Institutional support	1,049,599	975,075
Advancement	849,051	915,964
	1,898,650	1,891,039
	$ 12,210,871	$ 11,904,229