DENVER SEMINARY®

Financial Statements
With Independent Auditors Report

June 30, 2018 and 2017

CAPINCROUSE LLP

DENVER SEMINARY

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CAPINCROUSE LLP

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Denver Seminary
Littleton, Colorado

We have audited the accompanying financial statements of Denver Seminary, which comprise the statements of financial position as of June 30, 2018 and 2017, 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. Those standards require that we plan and perform the audits 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 auditor's 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 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.

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Board of Trustees
Denver Seminary
Littleton, Colorado

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, 2018 and 2017, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Centennial, Colorado
October 11, 2018

DENVER SEMINARY

Statements of Financial Position

	June 30, 2018	June 30, 2017
ASSETS:		
Cash and cash equivalents	$ 175,770	$ 1,910,987
Restricted cash	3,107,485	537,930
Investments	15,049,707	15,601,801
Accounts receivable–net	166,963	177,801
Prepaid expenses and other assets	418,943	375,378
Trust assets	862,596	894,916
Property and equipment–net	18,047,653	18,887,014
Total Assets	$ 37,829,117	$ 38,385,827
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and other liabilities	$ 344,974	$ 308,517
Deferred revenue	715,445	725,505
Line of credit	650,000	100,000
Capital lease obligations	299,407	344,028
Interest rate swap	7,741	53,953
Annuity payable	194,389	233,797
Trust liability	632,895	636,446
Bonds payable–net	2,991,025	4,523,301
	5,835,876	6,925,547
Net assets:		
Unrestricted:		
Operating	11,723,164	11,977,771
Board-designated quasi endowments	2,433,719	2,465,725
	14,156,883	14,443,496
Temporarily restricted	10,195,212	9,650,101
Permanently restricted	7,641,146	7,366,683
	31,993,241	31,460,280
Total Liabilities and Net Assets	$ 37,829,117	$ 38,385,827

See notes to financial statements

DENVER SEMINARY

Statements of Activities

	Year Ended June 30,							
	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:								
Tuition and fees	$ 7,586,227	$ -	$ -	$ 7,586,227	$ 7,708,905	$ -	$ -	$ 7,708,905
Less scholarships and grants	(1,554,669)	-	-	(1,554,669)	(1,411,993)	-	-	(1,411,993)
Net tuition and fees	6,031,558	-	-	6,031,558	6,296,912	-	-	6,296,912
Contributions	1,008,775	3,240,506	274,463	4,523,744	1,069,086	4,012,895	98,479	5,180,460
Auxiliary services and other	1,491,704	4,330	-	1,496,034	1,421,649	9,670	-	1,431,319
Total Revenue and Support	8,532,037	3,244,836	274,463	12,051,336	8,787,647	4,022,565	98,479	12,908,691
NET ASSETS RELEASED FROM:								
Purpose restrictions	3,648,151	(3,648,151)	-	-	2,105,091	(2,105,091)	-	-
EXPENSES:								
Compensation and benefits	9,053,403	-	-	9,053,403	8,563,425	-	-	8,563,425
Office	710,545	-	-	710,545	688,234	-	-	688,234
Advertising and printing	438,049	-	-	438,049	382,368	-	-	382,368
Travel, meals, and entertainment	369,555	-	-	369,555	372,659	-	-	372,659
Maintenance and repairs	349,092	-	-	349,092	359,607	-	-	359,607
Utilities and telephone	301,348	-	-	301,348	310,976	-	-	310,976
Professional services	194,422	-	-	194,422	229,342	-	-	229,342
Interest	117,804	-	-	117,804	154,990	-	-	154,990
Other	394,217	-	-	394,217	202,334	-	-	202,334
Total expenses before depreciation and amortization	11,928,435	-	-	11,928,435	11,263,935	-	-	11,263,935
Change in net assets from operations before depreciation and amortization	251,753	(403,315)	274,463	122,901	(371,197)	1,917,474	98,479	1,644,756

(continued)

See notes to financial statements

DENVER SEMINARY

Statements of Activities

(continued)

	Year Ended June 30,							
	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Depreciation and amortization expense	1,248,506	-	-	1,248,506	1,405,434	-	-	1,405,434
Change in net assets from operating activities	(996,753)	(403,315)	274,463	(1,125,605)	(1,776,631)	1,917,474	98,479	239,322
NON-OPERATING ACTIVITIES:								
Investment income	215,096	927,659	-	1,142,755	339,884	1,390,922	-	1,730,806
Mineral royalties income	520,515	-	-	520,515	632,865	-	-	632,865
Change in value of annuities and trusts	(71,683)	20,767	-	(50,916)	(70,890)	23,222	-	(47,668)
Change in value of interest rate swap	46,212	-	-	46,212	99,363	-	-	99,363
	710,140	948,426	-	1,658,566	1,001,222	1,414,144	-	2,415,366
Change in Net Assets	(286,613)	545,111	274,463	532,961	(775,409)	3,331,618	98,479	2,654,688
Net Assets, Beginning of Year	14,443,496	9,650,101	7,366,683	31,460,280	15,218,905	6,318,483	7,268,204	28,805,592
Net Assets, End of Year	$ 14,156,883	$ 10,195,212	$ 7,641,146	$ 31,993,241	$ 14,443,496	$ 9,650,101	$ 7,366,683	$ 31,460,280

See notes to financial statements

DENVER SEMINARY

Statements of Cash Flows

	Year Ended June 30, 2018	Year Ended June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 532,961	$ 2,654,688
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,248,506	1,405,434
Bad debt	26,399	27,630
Net realized and unrealized gains on investments and trusts	(757,120)	(1,427,176)
Change in value of annuities and trusts	50,916	47,668
Change in value of interest rate swap	(46,212)	(99,363)
Change in operating assets and liabilities:		
Accounts receivable–net	(15,561)	(43,543)
Prepaid expenses and other assets	(43,565)	(3,734)
Accounts payable and other liabilities	36,457	45,789
Deferred revenue	(10,060)	121,337
Net Cash Provided by Operating Activities	1,022,721	2,728,730
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(3,234,330)	(1,907,545)
Proceeds from sale of investments	4,571,311	2,131,278
Purchases of property and equipment	(197,005)	(106,697)
Net Cash Provided by Investing Activities	1,139,976	117,036
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	1,550,000	800,000
Payments on line of credit	(1,000,000)	(1,400,000)
Payments on capital lease obligations	(249,037)	(207,342)
Payments on bonds payable	(1,540,000)	(510,000)
Payments on annuities	(89,322)	(92,714)
Net Cash Used by Financing Activities	(1,328,359)	(1,410,056)
Change in Cash, Cash Equivalents, and Restricted Cash	834,338	1,435,710
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	2,448,917	1,013,207
Cash, Cash Equivalents, and Restricted Cash, End of Year	$ 3,283,255	$ 2,448,917
SUPPLEMENTAL DISCLOSURE AND NON-CASH ITEM:		
Cash paid for interest	$ 123,144	$ 157,373
Property and equipment additions financed through capital leases	$ 204,416	$ 163,126

See notes to financial statements

DENVER SEMINARY

Notes to Financial Statements

June 30, 2018 and 2017

1. NATURE OF ORGANIZATION:

Denver Seminary (the Seminary) 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 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. The Seminary is also accredited to offer CPE training by the Association of Clinical Pastoral Education and has been approved by the same organization as a Clinical Pastoral Education (CPE) training center. The center offers CPE Level 1, Level II, and supervisory education CPE units for matriculated Seminary students.

The Seminary is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state law(s). However, the Seminary is subject to federal income tax on any unrelated business taxable income. In addition, the Seminary is not classified as a private foundation within the meaning of Section 509(a) of the IRC. The primary source of support and revenue for the Seminary is tuition and fees and contributions.

DENVER SEMINARY

Notes to Financial Statements

June 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the statements to the reader. The Seminary uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

CASH AND CASH EQUIVALENTS

Cash consists of petty cash and checking accounts. As of June 30, 2018 and 2017, cash (including restricted cash) exceeded federally insured limits by approximately $3,030,000 and $2,070,000, respectively. The Seminary has not experienced any material losses in such accounts.

RESTRICTED CASH

Restricted cash consists of cash to be used solely for the payments of principal and interest on the bonds payable, as described in note 9. Certain balances must be maintained to comply with bond covenants. There have been no violations of restricted balances in accordance with the bond covenants.

INVESTMENTS AND TRUST ASSETS

Investments and trust assets held in equity and debt securities are stated at fair value. The alternative investments are carried at fair value or net asset value per share. Unrealized and realized gains and losses are included in the statements of activities as non-operating activities.

ACCOUNTS RECEIVABLE

Accounts receivable primarily consists of amounts due from students for tuition. Receivables are recorded net of an allowance for doubtful accounts of $20,000 as of June 30, 2018 and 2017, which is based on the aging of the accounts receivable at year-end. The allowance for uncollectible amounts are 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.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost if acquired or at fair market at the date of gift, if donated. The Seminary capitalizes fixed assets greater than $1,000. Depreciation and amortization is computed on a straight-line basis over the following estimated useful lives of the assets:

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

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

GIFT ANNUITY PAYABLE
Annuity contracts are recorded as liabilities at the present value of the aggregate payments due to annuitants, based upon acceptable life expectancy tables. Remainder interests to the Seminary are reported in net assets based on purpose and intent of the donor.

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 stated in the agreement. The recorded amount of trust assets and liabilities changes each year as the result of changes in the market value of the trust assets, earnings, payments to beneficiaries, and changes in actuarial assumptions. The net effect of those changes are recorded as a change in value of annuities and trusts in the statement of activities. Upon the death of the lifetime beneficiaries, any remaining amounts in the asset or liability accounts will be recognized as a change in value in the statements of activities.

NET ASSETS
The financial statements report amounts separately by class of net assets.

Unrestricted net assets are those resources currently available at the direction of the board for use in the Seminary’s operations, board designated quasi-endowments, and those resources invested in property and equipment–net.

Temporarily restricted net assets are those resources which are stipulated by donors for specific purposes and resources provided through irrevocable trusts subject to the expiration of the time restrictions on beneficial interests to other parties. 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 to 20 year period.

Permanently restricted net assets are those resources contributed with donor restrictions requiring they be held in perpetuity.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE AND SUPPORT

Tuition and fees revenue is recognized when earned, which is when classes occur. Tuition payments made in advance are deferred as a liability and are included in deferred revenue on the statements of financial position.

Contributions are recorded when made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Seminary. Gifts of cash and other assets are recognized as unrestricted contributions unless they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

The Seminary reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the Seminary reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Gift-in-kind contributions include donated services, stock, and donated use of facilities at the Maryland and Texas campus locations. These amounts totaled $548,665 and $312,108 for the years ended June 30, 2018 and 2017, respectively, and are included with contributions on the statements of activities.

Auxiliary services and other income consist primarily of housing fees. These amounts are recorded when earned.

FUNCTIONAL ALLOCATION OF EXPENSES

Note 16 presents expenses by functional classification in accordance with the overall mission of the Seminary. Each functional classification displays most expenses related to the underlying natural classification. 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 proportionally based on the percentage of full-time employees and percentage of total space occupied by each service. The Seminary had no identified joint costs for the years ended June 30, 2018 and 2017.

ADVERTISING COSTS

Advertising costs for the years ended June 30, 2018 and 2017 of $217,210 and $119,483, respectively, are expensed as incurred and included in the statements of activities.

DENVER SEMINARY

Notes to Financial Statements

June 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

OPERATING AND NON-OPERATING ACTIVITIES
The activity of the Seminary has been reported in the statements of activities in the following two categories: operating and non-operating. Operating includes the core educational activities of the organization. Non-operating includes all other activities that are not considered to be "core educational," such as investment income, mineral royalties, change in interest rate swap, and change in value of annuities and trusts.

3. INVESTMENTS:
Investments consist of:

	June 30, 2018	June 30, 2017
Money market funds	$ 43,096	$ 136,338
Equity securities	9,869,752	10,457,742
Bond and government securities	2,287,175	3,016,673
Alternatives	2,849,684	1,991,048
	$ 15,049,707	$ 15,601,801

Investment income consists of:

	Year Ended June 30, 2018	Year Ended June 30, 2017
Interest and dividends	$ 424,149	$ 342,803
Net realized and unrealized gains	718,606	1,388,003
	$ 1,142,755	$ 1,730,806

The Seminary incurred investment management fees of $55,504 and $50,121 for the years ended June 30, 2018 and 2017, respectively. These fees are netted against interest and dividends.

4. TRUST ASSETS AND LIABILITIES:

Trust assets consist of:

	June 30, 2018	June 30, 2017
Money market funds	$ 3,188	$ 5,241
Equity securities	591,693	613,047
Bond and government securities	138,845	152,185
Alternatives	128,870	124,443
	$ 862,596	$ 894,916

Trust liabilities consist of:

	June 30, 2018	June 30, 2017
Revocable	$ 614,523	$ 610,300
Irrevocable	18,372	26,146
	$ 632,895	$ 636,446

5. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consists of:

	June 30, 2018	June 30, 2017
Land and land improvements	$ 3,284,366	$ 3,264,327
Building and improvements	23,564,931	23,478,314
Equipment and furnishings	3,927,434	3,748,508
Library books	3,477,739	3,452,511
Art collection	185,952	185,952
	34,440,422	34,129,612
Less accumulated depreciation and amortization	(16,392,769)	(15,242,598)
	$ 18,047,653	$ 18,887,014

5. PROPERTY AND EQUIPMENT–NET, continued:

Depreciation and amortization expense, related to property and equipment, was $1,240,782 and $1,397,710 for the years ended June 30, 2018 and 2017, respectively.

6. LINE OF CREDIT:

The Seminary has entered into a line of credit agreement with a financial institution, and it is available to the Seminary for a maximum amount of $1,250,000. The stated interest rate is Wall Street Journal Prime rate, which was 5.00% as of June 30, 2018. The agreement matures in November 2018. As of June 30, 2018 and 2017, $650,000 and $100,000 was drawn on this line of credit.

7. CAPITAL LEASE OBLIGATIONS:

The Seminary has acquired equipment under capital lease arrangements. The cost of this equipment was $1,042,010 and $918,843 as of June 30, 2018 and 2017, respectively. The related accumulated amortization was $751,451 and $671,473 as of June 30, 2018 and 2017, respectively. Amortization expense for the leased property and equipment is included in depreciation and amortization on the statements of activities. Future minimum lease payments are:

Year Ending June 30,	
2019	$ 159,070
2020	98,251
2021	41,674
2022	20,004
2023	10,002
	329,001
Less interest expense	(29,594)
	$ 299,407

8. LETTER OF CREDIT:

Upon issuance of bonds payable, the Seminary obtained a letter of credit with a financial institution in the original amount of $9,500,000, now $3,184,034 as of June 30, 2018. 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 bonds payable principal due as part of the latest renewal. The extended maturity is July 2019.

9. BONDS PAYABLE–NET:

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) to fund the construction of its new campus. Principal is due annually and interest accrues at a variable rate (1.51% as of June 30, 2018) on approximately $380,000 of the balance and a fixed rate of 2.18% on the remaining balance under an interest rate swap agreement (note 10). Interest on outstanding bonds is paid quarterly and the bond agreement requires quarterly deposits into a bond payment account for the reduction of principal on the bonds. The first principal payment occurred July 2006. The Series 2014 Bonds are net of a discount of $31,669 and $33,648 as of June 30, 2018 and 2017, respectively. They are secured by a letter of credit (note 8) and are collateralized by certain facilities, receivables, and other revenues of the Seminary. The Series 2004 Bonds mature July 2034, however, subsequent to the year ended June 30, 2018, the Seminary paid off the bonds payable in full.

Bond issuance costs are recorded at cost and are amortized over the term of the bond payable agreement using the straight-line method, which approximates the effective-interest method. Accumulated amortization related to the bond issuance costs are $104,989 and $97,265 as of June 30, 2018 and 2017, respectively. Bond issuance costs are netted against bonds payable on the statements of financial position.

The Seminary was in compliance with all bond covenants as of June 30, 2018.

Bonds payable–net consist of:

	June 30,	
	2018	2017
Bonds payable–net	$ 3,094,140	$ 4,634,140
Less bond issuance costs–net	(103,115)	(110,839)
	$ 2,991,025	$ 4,523,301

10. INTEREST RATE SWAP AGREEMENT:

In January 2014, the Seminary entered into an interest rate swap agreement with a notional amount of $3,735,000 as of June 30, 2018 to provide the cash flow consistency of a fixed rate while maintaining the flexibility of a variable-rate tax-free financing on the Seminary's bonds payable (note 9). 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 the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index. The interest rate swap agreement contains a declining notional amount and matures July 2024.

10. INTEREST RATE SWAP AGREEMENT, continued:

The fair market value of the interest rate swap agreement as of June 30, 2018 and 2017 was $7,741 and $53,953, respectively, which is reflected as a liability in the statements of financial position. There was a $46,212 and $99,363 change in the fair market value of the interest rate swap agreement for the years ended June 30, 2018 and 2017, respectively, which is reflected in the statements of activities. Subsequent to the year ended June 30, 2018, the Seminary terminated the interest rate swap after bonds were paid off.

11. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	June 30, 2018	June 30, 2017
Projects	$ 3,953,368	$ 3,736,434
Term endowments	3,467,068	3,336,616
Endowment funds	2,557,924	2,333,200
Irrevocable charitable trusts	216,852	243,851
	$ 10,195,212	$ 9,650,101

12. ENDOWMENT FUNDS:

The Seminary's endowments consist of various individual funds established for a variety of purposes. Endowment funds 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 board-designated, are classified and reported based on the existence or absence of donor-imposed restrictions.

The management of the Seminary has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (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 the 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.

12. ENDOWMENT FUNDS, 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 endowment fund;
2. The purposes of the institution and the endowment fund;
3. General economic conditions;
4. The possible effect of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the institution; and
7. The investment policy of the institution.

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 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 and alternative investments to assist in achieving its long-term return objectives within prudent risk constraints.

Spending policies 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. The approved spending policy was 4.5% for the years ended June 30, 2018 and 2017. 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.

12. ENDOWMENT FUNDS, continued:

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Seminary to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $0, as of June 30, 2018 and 2017.

Endowment net asset composition by type of fund as of June 30, 2018:

	Unrestricted	Term Endowments	Temporarily Restricted	Permanently Restricted	Total
Donor restricted for:					
Scholarships	$ -	$ 1,581,999	$ 1,234,952	$ 4,018,325	$ 6,835,276
Academic Chairs	-	-	998,772	1,828,282	2,827,054
Lectureships	-	-	156,256	308,028	464,284
Other	-	1,885,069	167,944	1,486,511	3,539,524
Board-designated	2,433,719	-	-	-	2,433,719
	$ 2,433,719	$ 3,467,068	$ 2,557,924	$ 7,641,146	$ 16,099,857

12. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended June 30, 2018:

	Unrestricted	Term Endowments	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2017	$ 2,465,725	$ 3,336,616	$ 2,333,200	$ 7,366,683	$15,502,224
Investment return:					
Interest and dividends	44,200	115,263	256,847	-	416,310
Realized losses	5,613	(20,317)	(45,274)	-	(59,978)
Net appreciation	150,719	191,265	429,875	-	771,859
Total investment return	200,532	286,211	641,448	-	1,128,191
Contributions	-	66,936	-	274,463	341,399
Appropriation of endowment assets for expenditure	(232,538)	(222,695)	(416,724)	-	(871,957)
Endowment net assets, June 30, 2018	$ 2,433,719	$ 3,467,068	$ 2,557,924	$ 7,641,146	$16,099,857

Endowment net asset composition by type of fund as of June 30, 2017:

	Unrestricted	Term Endowments	Temporarily Restricted	Permanently Restricted	Total
Donor restricted for:					
Scholarships	$ -	$ 1,441,013	$ 1,073,697	$ 3,858,439	$ 6,373,149
Academic Chairs	-	-	982,112	1,820,459	2,802,571
Lectureships	-	-	140,501	308,028	448,529
Other	-	1,895,603	136,890	1,379,757	3,412,250
Board-designated	2,465,725	-	-	-	2,465,725
	$ 2,465,725	$ 3,336,616	$ 2,333,200	$ 7,366,683	$15,502,224

12. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended June 30, 2017:

	Unrestricted	Term Endowments	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2016	$ 2,357,100	$ 2,894,931	$ 1,670,294	$ 7,268,204	$14,190,529
Investment return:					
Interest and dividends	40,916	97,899	188,771	-	327,586
Realized losses	(1,416)	(91,538)	(176,523)	-	(269,477)
Net appreciation	264,125	468,618	903,695	-	1,636,438
Total investment return	303,625	474,979	915,943	-	1,694,547
Contributions	-	168,336	-	98,479	266,815
Appropriation of endowment assets for expenditure	(195,000)	(201,630)	(253,037)	-	(649,667)
Endowment net assets, June 30, 2017	$ 2,465,725	$ 3,336,616	$ 2,333,200	$ 7,366,683	$ 15,502,224

13. FAIR VALUE MEASUREMENTS:

The Seminary uses appropriate valuation techniques to determine fair value based on inputs available. When possible, the Seminary measures fair value using Level 1 inputs on the hierarchy presented in the Fair Value Measurements Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) because they generally provide the most reliable evidence of fair value. Assets and liabilities 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. For the Seminary, level 1 investments consist of equity securities, bond and government securities, and certain alternative investments. Bond and government securities and alternative investments included in level 1 are actively traded mutual funds.

13. FAIR VALUE MEASUREMENTS, continued:

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

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 the fair value is determine through the use of models or other valuation methodologies. For the Seminary, level 2 investments consist of an 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.

Level 3: Pricing inputs are unobservable for the investments 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 judgement or estimation. For the Seminary, there were no level 3 investments held for the years ended June 30, 2018 and 2017.

The following table presents the fair value measurements of assets and liabilities on a recurring basis as of June 30, 2018 and 2017.

		Fair Value Measurements Using:		
	Fair Value	Level 1	Level 2	Level 3
June 30, 2018:				
Assets:				
Investments and trust assets:				
Equity securities:				
Large-cap	$ 3,295,615	$ 3,293,987	$ -	$ -
International value	2,731,156	2,731,156	-	-
Master limited partnerships	2,116,454	2,116,454	-	-
Mid-cap	978,888	978,888	-	-
Emerging markets	909,595	909,595	-	-
Small-cap	429,737	429,737	-	-
Bonds and government securities:				
Fixed income	1,446,859	1,446,859	-	-
Floating rate corporate loans	979,161	979,161	-	-
	12,887,465	$ 12,885,837	$ -	$ -

13. FAIR VALUE MEASUREMENTS, continued:

The following table presents the fair value measurements of assets and liabilities on a recurring basis as of June 30, 2018 and 2017, continued:

		Fair Value Measurements Using:		
	Fair Value	Level 1	Level 2	Level 3
June 30, 2018, continued:				
Assets, continued:				
Reconciling items held at net asset value:				
Multi-strategy stock funds	1,436,920			
Low-correlated hedge funds	1,019,950			
Multi-strategy bond funds	521,685			
Reconciling items held at cost:				
Money market funds	46,283			
Total Investments and Trust Assets	$ 15,912,303			
Liabilities:				
Interest rate swap	$ 7,741	$ -	$ 7,741	$ -

13. FAIR VALUE MEASUREMENTS, continued:

		Fair Value Measurements Using:		
	Fair Value	Level 1	Level 2	Level 3
June 30, 2017:				
Assets:				
Investments and trust assets:				
Equity securities:				
Large-cap	$ 3,670,083	$ 3,670,083	$ -	$ -
International value	2,413,869	2,413,869	-	-
Master limited partnerships	686,022	686,022	-	-
Mid-cap	1,016,460	1,016,460	-	-
Emerging markets	877,073	877,073	-	-
Small-cap	440,176	440,176	-	-
Commodities	684,821	684,821	-	-
Bonds and government securities:				
Fixed income	934,111	934,111	-	-
Floating rate corporate loans	1,285,557	1,285,557	-	-
High yield fixed income	430,275	430,275	-	-
Alternative investments:				
Low-correlated hedge funds	1,171,801	1,171,801	-	-
	13,610,248	$ 13,610,248	$ -	$ -
Reconciling items held at net asset value:				
Multi-strategy stock funds	1,282,284			
Low-correlated hedge funds	943,689			
Multi-strategy bond funds	518,916			
Reconciling items held at cost:				
Money market funds	141,580			
Total Investments and Trust Assets	$ 16,496,717			
Liabilities:				
Interest rate swap	$ 53,953	$ -	$ 53,953	$ -

Changes in valuation techniques: None.

13. FAIR VALUE MEASUREMENTS, continued:

The Seminary has a number of financial instruments, consisting of cash and cash equivalents, accounts receivable, and bonds payable. None of the financial instruments are held for trading purposes. As of June 30, 2018 and 2017, the Seminary estimates that the fair value of these financial instruments does not materially differ from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position.

The Seminary uses the Net Asset Value (NAV) to determine the value for all investments which (1) do not have a readily determinable fair value and (2) prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. Investments in certain entities that calculate net asset value per share are as follows:

Fund Description	June 30, 2018 Net Asset Value	June 30, 2017 Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Lighthouse Global Long/Short Fund	$ 1,019,950	$ 943,690	None	Monthly or Quarterly	60 to 90 days
Common fund:					
Multi-strategy Equity Fund	1,436,920	1,282,284	None	Monthly	5 days
Multi-strategy Bond Fund	521,685	518,916	None	Monthly	5 days
	$ 2,978,555	$ 2,744,890			

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.

14. 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 Seminary's third party from the sale of such substances extracted from the land. The Seminary received proceeds under the agreement of $520,515 and $632,865 for the years ended June 30, 2018 and 2017, respectively. Income from this agreement is expected to continue, however, an asset has not been recorded as future amounts are not able to be calculated.

15. RETIREMENT PLAN:
The Seminary has established a defined contribution plan (the Plan), which operates under Section 403(b) of the Internal Revenue Code. All non-student Seminary employees working over 1,000 hours per year are eligible to participate in the Plan. The Seminary matches all full-time employee contributions up to 5% of compensation. All contributions to the Plan are fully vested. Employer contributions were $302,210 and $295,018 for the years ended June 30, 2018 and 2017, respectively.

16. FUNCTIONAL EXPENSES:
The costs of providing various program services and supporting activities have been summarized on a functional basis as follows:

	Years Ended June 30,	
	2018	2017
Program services:		
Instruction	$ 6,158,784	$ 5,995,224
Student services	1,716,260	1,756,340
Academic support	1,556,027	1,606,153
Auxiliary enterprises	860,595	860,043
Public service	795,134	479,210
	11,086,800	10,696,970
Supporting activities:		
Institutional support	1,210,159	1,078,025
Advancement	879,982	894,374
	2,090,141	1,972,399
	$ 13,176,941	$ 12,669,369

17. RELATED PARTY TRANSACTION:
A member of the board of trustees is a small minority owner of the investment advisory firm who manages the Seminary's endowment funds. During the years ended June 30, 2018 and 2017, the Seminary paid investment fees of $31,693 and $30,974, respectively, to this firm.

18. SUBSEQUENT EVENTS:
As noted in note 9 above, subsequent to the year ended June 30, 2018, the Seminary paid off the bonds payable in full.

Subsequent events were evaluated through October 11, 2018, which is the date the financial statements were available to be issued.