

ASBURY THEOLOGICAL SEMINARY

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

ASBURY THEOLOGICAL SEMINARY

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Asbury Theological Seminary

Report on the Financial Statements

We have audited the accompanying financial statements of Asbury Theological Seminary (the "Seminary"), which comprise the statements of financial position as of June 30, 2013 and 2012, 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.

Auditor's 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes 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 Seminary'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 Seminary'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 Asbury Theological Seminary as of June 30, 2013 and 2012, 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.

Emphasis of Matter

As discussed in Note 26 to the financial statements, the 2012 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 27 to the financial statements, the Seminary has elected to change its method of reporting restricted contributions and restricted investment income when a restriction is met in the same period as received or earned to record as net assets released from restriction rather than as unrestricted support. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2013 on our consideration of the Seminary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Seminary's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, Kentucky

November 5, 2013

ASBURY THEOLOGICAL SEMINARY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2013 AND 2012

	ASSETS	
	2013	2012 (RESTATED)
Current assets		
Cash and cash equivalents	\$ 787,678	\$ 125,904
Accrued income receivable	69,379	106,296
Accounts receivable, less allowance of \$50,000 in both years	2,494,732	2,436,515
Contributions receivable, less allowance of \$50,000 in both years	3,224,926	4,882,480
Student loans receivable	60,722	86,997
Inventories	44,191	44,191
Prepaid expenses	192,873	112,678
Total current assets	<u>6,874,501</u>	<u>7,795,061</u>
Non-current assets		
Contributions receivable	273,313	1,358,308
Student loans receivable	5,124,995	4,978,328
Faculty and staff mortgage loans receivable	169,123	164,592
Investments	141,839,270	135,175,434
Investments held for capital improvements	1,497,105	11,471,468
Funds held in trusts by others	2,261,309	2,177,394
Property, plant, and equipment, net	89,497,535	77,201,325
Debt issuance costs, net	27,504	32,504
Total non-current assets	<u>240,690,154</u>	<u>232,559,353</u>
Total assets	<u>\$ 247,564,655</u>	<u>\$ 240,354,414</u>

See accompanying notes to financial statements.

ASBURY THEOLOGICAL SEMINARY

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2013 AND 2012

LIABILITIES AND NET ASSETS		
	2013	2012 (RESTATED)
Current liabilities		
Accounts payable and payroll liabilities	\$ 1,494,623	\$ 2,767,310
Deposits and agency funds	271,348	237,245
Deferred revenues	1,425,846	1,348,503
Interest payable	21,415	22,222
Notes payable	302,328	292,347
Total current liabilities	<u>3,515,560</u>	<u>4,667,627</u>
Non-current liabilities		
Notes payable	7,379,371	7,681,699
Annuities payable	2,265,819	2,582,064
Federal government advances for student loans	3,686,668	3,672,423
Trust obligations	549,293	533,460
Total non-current liabilities	<u>13,881,151</u>	<u>14,469,646</u>
Total liabilities	<u>17,396,711</u>	<u>19,137,273</u>
Net assets		
Unrestricted:		
Undesignated	(289,090)	121,161
Designated for:		
Student loans	729,027	724,492
Endowment	3,317	(94,941)
Annuity and life income	2,874,896	3,008,743
Net investment in plant	70,799,621	54,624,801
Total unrestricted	<u>74,117,771</u>	<u>58,384,256</u>
Temporarily restricted:		
Endowment	32,545,123	25,260,106
Other	20,024,294	35,088,140
Total temporarily restricted	<u>52,569,417</u>	<u>60,348,246</u>
Permanently restricted:		
Endowment	100,039,423	99,015,271
Annuity and life income	1,218,102	1,327,505
Residual interest in trusts held by others	2,223,231	2,141,863
Total permanently restricted	<u>103,480,756</u>	<u>102,484,639</u>
Total net assets	<u>230,167,944</u>	<u>221,217,141</u>
Total liabilities and net assets	<u>\$ 247,564,655</u>	<u>\$ 240,354,414</u>

See accompanying notes to financial statements.

ASBURY THEOLOGICAL SEMINARY

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating				
Revenues, gains, and other support:				
Tuition and fees	\$ 13,855,029	\$ -0-	\$ -0-	\$ 13,855,029
Less scholarship allowances	(4,156,569)	-0-	-0-	(4,156,569)
Tuition and fees, net	9,698,460	-0-	-0-	9,698,460
Private gifts and grants	2,016,045	2,612,924	-0-	4,628,969
Government grants	141,206	-0-	-0-	141,206
Other revenue	362,153	238,471	-0-	600,624
Investment return designated for current operations	403,388	5,924,309	-0-	6,327,697
Sales and service of auxiliary enterprises	1,868,486	-0-	-0-	1,868,486
Total revenues and gains	14,489,738	8,775,704	-0-	23,265,442
Net assets released from restrictions	8,452,376	(8,452,376)	-0-	-0-
Total revenues, gains, and other support	22,942,114	323,328	-0-	23,265,442
Expenses:				
Education and general:				
Instruction	10,904,032	-0-	-0-	10,904,032
Institutional support	6,183,977	-0-	-0-	6,183,977
Academic support	2,822,972	-0-	-0-	2,822,972
Student services	2,613,919	-0-	-0-	2,613,919
Public service	99,591	-0-	-0-	99,591
Total educational and general expenses	22,624,491	-0-	-0-	22,624,491
Auxiliary enterprises	1,281,560	-0-	-0-	1,281,560
Total expenses	23,906,051	-0-	-0-	23,906,051
Change in net assets from operating activities	(963,937)	323,328	-0-	(640,609)
Non-operating				
Private gifts and grants	185,000	362,844	700,580	1,248,424
Annuity and life income agreements	415	-0-	11,740	12,155
Investment return reinvested	771,223	7,285,476	158,513	8,215,212
Present value adjustment on annuity obligations	(35,317)	-0-	72,643	37,326
Present value adjustment on trust obligations	-0-	-0-	(5,620)	(5,620)
Changes in value of funds held in trust by others	-0-	2,546	81,369	83,915
Transfers at donor request	-0-	23,108	(23,108)	-0-
Net assets released from restrictions	15,776,131	(15,776,131)	-0-	-0-
Change in net assets from non-operating activities	16,697,452	(8,102,157)	996,117	9,591,412
Change in net assets	15,733,515	(7,778,829)	996,117	8,950,803
Net assets at the beginning of year	58,384,256	60,348,246	102,484,639	221,217,141
Net assets at the end of the year	<u>\$ 74,117,771</u>	<u>\$ 52,569,417</u>	<u>\$ 103,480,756</u>	<u>\$ 230,167,944</u>

See accompanying notes to financial statements.

ASBURY THEOLOGICAL SEMINARY

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2012 (RESTATED)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating				
Revenues, gains, and other support:				
Tuition and fees	\$ 13,977,422	\$ -0-	\$ -0-	\$ 13,977,422
Less scholarship allowances	(3,876,174)	-0-	-0-	(3,876,174)
Tuition and fees, net	10,101,248	-0-	-0-	10,101,248
Private gifts and grants	1,631,880	1,855,021	-0-	3,486,901
Government grants	141,503	-0-	-0-	141,503
Other revenue	435,308	-0-	-0-	435,308
Investment return designated for current operations	358,487	5,354,568	-0-	5,713,055
Sales and service of auxiliary enterprises	1,698,898	-0-	-0-	1,698,898
Total revenues and gains	14,367,324	7,209,589	-0-	21,576,913
Net assets released from restrictions	8,691,345	(8,691,345)	-0-	-0-
Total revenues, gains, and other support	23,058,669	(1,481,756)	-0-	21,576,913
Expenses:				
Education and general:				
Instruction	11,217,878	-0-	-0-	11,217,878
Institutional support	6,358,959	-0-	-0-	6,358,959
Academic support	2,823,308	-0-	-0-	2,823,308
Student services	2,373,466	-0-	-0-	2,373,466
Public service	127,179	-0-	-0-	127,179
Total educational and general expenses	22,900,790	-0-	-0-	22,900,790
Auxiliary enterprises	1,188,914	-0-	-0-	1,188,914
Total expenses	24,089,704	-0-	-0-	24,089,704
Change in net assets from operating activities	(1,031,035)	(1,481,756)	-0-	(2,512,791)
Non-operating				
Private gifts and grants	529,890	22,150,678	2,244,296	24,924,864
Annuity and life income agreements	22,564	-0-	66,293	88,857
Loss on extinguishment of debt	(496,402)	-0-	-0-	(496,402)
Investment return reinvested	(519,038)	(10,432,872)	(16,552)	(10,968,462)
Present value adjustment on annuity obligations	(180,559)	-0-	(45,844)	(226,403)
Present value adjustment on trust obligations	-0-	-0-	(11,363)	(11,363)
Changes in value of funds held in trust by others	-0-	(1,905)	(131,412)	(133,317)
Transfers at donor request	(62,361)	(19,591)	81,952	-0-
Net assets released from restrictions	760,423	(760,423)	-0-	-0-
Change in net assets from non-operating activities	54,517	10,935,887	2,187,370	13,177,774
Change in net assets	(976,518)	9,454,131	2,187,370	10,664,983
Net assets beginning of year, as previously stated	59,360,774	50,894,115	104,408,347	214,663,236
Prior period adjustments	-0-	-0-	(4,111,078)	(4,111,078)
Net assets at the beginning of year, as restated	59,360,774	50,894,115	100,297,269	210,552,158
Net assets at the end of the year	\$ 58,384,256	\$ 60,348,246	\$ 102,484,639	\$ 221,217,141

See accompanying notes to financial statements.

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STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012 (RESTATED)
Cash Flows from Operating Activities		
Change in net assets	\$ 8,950,803	\$ 10,664,983
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	1,911,362	1,790,718
Amortization of debt issuance costs	5,000	2,496
Amortization of discount on contributions receivable	(253,598)	(32,548)
Provision for collection losses on accounts receivable	18,848	77,124
Provision for collection losses on contributions receivable	-0-	65,676
Principal on Perkins loans canceled	40,888	31,670
Actuarial adjustment to annuity obligations	(37,326)	226,403
Actuarial adjustment to trust obligations	5,620	11,363
Change in value of funds held in trusts held by others	(83,915)	133,317
Loss on extinguishment of debt	-0-	496,402
Net unrealized and realized losses (gains) on investments	(12,352,048)	7,321,606
Private gifts and grants restricted for long-term purposes	(700,580)	(2,237,396)
Private gifts and grants restricted for investment in property, plant and equipment	(200,000)	(15,933,133)
Investment income restricted for long-term investment	(158,513)	16,552
Donated securities included in contributions	-0-	(121,223)
Net change in operating assets and liabilities:		
Accrued income receivable	36,917	34,934
Accounts receivable	(77,065)	(279,135)
Contributions receivable	2,996,147	(5,604,713)
Inventories	-0-	19,824
Prepaid expenses	(80,195)	52,552
Accounts payable and payroll liabilities	(1,272,687)	1,661,447
Deposits and agency funds	34,103	(13,896)
Deferred revenues	77,343	97,055
Deferred compensation	-0-	(91,125)
Interest payable	(807)	(10,429)
Net cash flows from operating activities	<u>(1,139,703)</u>	<u>(1,619,476)</u>
Cash Flows from Investing Activities		
Purchases of investments	(31,508,843)	(83,771,347)
Proceeds from sales and maturities of investments	47,171,418	83,549,037
Purchase of property, plant, and equipment	(14,207,572)	(16,600,329)
Student loans	(846,128)	(827,216)
Student loan repayments	684,848	711,086
Faculty and staff loans	(7,500)	-0-
Faculty and staff mortgage loan repayments	2,969	3,080
Net cash flows from investing activities	<u>1,289,192</u>	<u>(16,935,689)</u>

See accompanying notes to financial statements.

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STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012 (RESTATED)
Cash Flows from Financing Activities		
Private gifts and grants restricted for long-term investment	700,580	2,237,396
Private gifts and grants restricted for investment in property, plant and equipment	200,000	15,933,133
Change in federal government advances for student loans	14,245	17,270
Proceeds received on annuity agreements	49,845	129,446
Contractual payments on annuity obligations	(328,764)	(363,033)
Contractual payments on trust obligations	10,213	(7,296)
Investment income restricted for long-term investment	158,513	(16,552)
Proceeds from notes payable	-0-	8,081,880
Principal payments on notes payable	(292,347)	(107,834)
Loan closing cost and bond cancellation fees	-0-	(1,022,631)
Principal payments on bonds payable	-0-	(7,310,000)
Net cash flows from financing activities	512,285	17,571,779
Net change in cash and cash equivalents	661,774	(983,386)
Cash and cash equivalents at beginning of year	125,904	1,109,290
Cash and cash equivalents at end of year	\$ 787,678	\$ 125,904
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid for interest net of amounts capitalized	\$ 265,910	\$ 315,282
Securities contributions held for investment	\$ -0-	\$ 121,223

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

1. NATURE OF ACTIVITIES

Asbury Theological Seminary (the "Seminary") is an interdenominational graduate school of theology. The Seminary was organized in 1923 and is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools and the Association of Theological Schools to award masters and doctoral degrees. The Seminary operates campuses in Wilmore, Kentucky and Orlando, Florida with students from diverse geographic locations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis, and have been prepared with a focus on the entity as a whole. Net assets, support, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Seminary are classified and reported as follows:

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that will be met, either by actions of the Seminary and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that the gifts be maintained permanently by the Seminary. Generally, the donors of these assets permit the Seminary to use all or part of the income earned on any related investments for general or specific purposes.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

Contributions

Contributions, including unconditional promises to give, are recorded as received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received, less an allowance for uncollectible receivables. Management's periodic evaluation of the adequacy of the allowance is based on its assessment of the current and historic collection history of the Seminary.

An allowance for uncollectible contributions is reflected in the accompanying financial statements as of and for the years ended June 30, 2013 and 2012.

Conditional Promises to Give

The Seminary does not recognize conditional promises as revenue until the condition is met. A donor's indication of an intention to give at a future date is not recognized as revenue until the intention is communicated as an unconditional promise to give.

Expiration of Donor-Imposed Restrictions

The expiration of a donor-imposed restriction for contributions or endowment investment income is recognized in the period in which the restriction expires, and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Seminary follows the policy of reporting donor-imposed restricted contributions and donor restricted investment income as temporarily restricted support or income and then released from restriction if the restriction is met in the same period as received or earned.

Cash and Cash Equivalents

For financial statement purposes, all investments (not held for long-term investment) including repurchase agreements with original maturities of three months or less are considered cash equivalents. Cash equivalents are stated at cost, which approximates market value. The Seminary is required to maintain separate cash accounts for the Federal Perkins Student Loan and Federal Work Study programs.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

Accounts Receivable

Accounts receivable include student accounts receivable and other receivables. Student accounts receivable represent unsecured amounts due for tuition, fees, and room and board from currently enrolled and former students. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Student Loans Receivable

Student loans receivable consists primarily of amounts loaned to qualified students through the Federal Perkins Loan Program ("Program"). These loans receivable are carried at unpaid principal balances, less an allowance for uncollectible loans. Management's periodic evaluation of the adequacy of the allowance is based primarily on Program requirements, the Seminary's past loan loss experience, specific impaired loans, and adverse situations that may affect the borrower's ability to repay. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with contractual terms. The allowance represents an amount, which, in management's judgment, is sufficient to absorb loans that may ultimately be written off. No allowance for uncollectible loans is reflected in the accompanying financial statements as of and for the years ended June 30, 2013 and 2012. Management has determined that such an allowance would not be material.

The Program provides for cancellation of loans if the borrower complies with certain Program provisions. The Federal government reimburses the Seminary for amounts canceled under these provisions. The Seminary's practice is to write off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, or for other reasons. As the Seminary determines that loans are uncollectible, the loans are written off and assigned to the United States Department of Education.

Loans are placed on nonaccrual when management believes, after considering economic conditions, business conditions, and collection efforts that the loans are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off. Interest income on nonaccrual loans is recognized only to the extent cash payment is received.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

Interest on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

Inventories

Inventories principally consist of maintenance and other supply items and are stated at the lower of cost or market with cost being primarily average cost.

Investments

Investments in certificates of deposits are stated at original deposit plus accrued interest. Investments in marketable equity and fixed income securities are determined by quoted market prices. For certain thinly-traded equity and fixed income securities, market prices are obtained from the Seminary's investment managers. Mutual funds are carried at fair values based on their published unit values.

Alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the Seminary's investment managers. The Seminary reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Investments in real estate are stated at the lower of cost or market as determined by appraisals or management estimates. Investments in rental real estate are stated at the lower of cost net of accumulated depreciation or market as determined by appraisals or management estimates. Other investments are recorded at cost, or in the case of gifts, at fair value at the date of acquisition.

Investment Pools

The Seminary maintains pooled investment accounts for its donor-restricted and board-designated endowments. Realized and unrealized gains and losses from investments in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Funds Held in Trust by Others

Funds held in trust by others include investments held in irrevocable trusts and administered by trustees which are neither in the possession of nor under the control of the Seminary. Certain of these trusts are held under an arrangement

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

where the Seminary receives income earned on the trust assets in perpetuity but will never receive the assets held in trust. These investments are recorded at management's estimate of the present value of the future cash flows, which represents the fair value of the trust assets.

Annuities Payable and Trust Obligations

Assets recorded under split interest agreements are recorded at fair value of the investments held under such agreements which represents management's estimate of the present value of expected future cash flows. Annuity and trust obligations are calculated and recorded using discount rates and actuarial assumptions as supplied by the American Council on Gift Annuities which represents the fair value of expected future cash flows from the Seminary to beneficiaries.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost net of accumulated depreciation. Items with a cost of greater than \$1,000 and a useful life in excess of one year are capitalized. Contributed property and equipment is recorded at fair value at the date of donation. The contributions are recorded as restricted support if a donor stipulates how long the assets must be used. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Buildings, residences, and other structures	50 - 100	years
Equipment	10	years
Library books	10	years
Computers and software	5	years

Interest Capitalized

The Seminary follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment during construction.

Debt Issuance Costs

Debt issuance costs are being amortized over the life of the related debt.

Deferred Revenue

Deferred revenues consist principally of prepaid rent and tuition.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

Federal Government Advances for Student Loans

Advances from the federal government for student loans under the Perkins loan program are distributable to the federal government upon liquidation of the loan program and thus are reflected as a liability in the accompanying statements of financial position.

Accounting for Uncertainty in Income Taxes

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Seminary and recognize a tax liability if the Seminary has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. The Seminary has analyzed its tax positions and has concluded that as of June 30, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This new standard amends the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The only impact to the financial statements is the change or expansion of fair value disclosure requirements. The required additional disclosures have been included in these financial statements.

The FASB issued ASU 2012-05, Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows. This new standard requires a nonprofit to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. The Seminary adopted ASU 2012-05 early and implemented it prospectively. The adoption of this change did not change previously reported net assets, but did impact how sales of donated assets were reflected on the statement of cash flows.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

Reclassifications

Certain amounts as originally reported in the prior year have been reclassified to conform to the presentation used in the current year. Such reclassifications had no effect on the change in net assets as previously reported.

Subsequent Events

The Seminary evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 5, 2013, which is the date the financial statements were issued.

3. CONTRIBUTIONS RECEIVABLE

Unconditional promises to give that are due in more than one year are reflected at present value of estimated future cash flows using discount rates ranging from 1.24% to 4.98%.

Contributions receivable consist of the following at June 30:

	2013	2012
Permanently restricted	\$ -0-	\$ -0-
Temporarily restricted	3,218,683	6,224,444
Unrestricted	379,379	365,565
Gross contributions receivable	3,598,062	6,590,009
Less allowance for uncollectible pledges	50,000	50,000
Less unamortized discount	49,823	299,221
Net contributions receivable	<u>\$ 3,498,239</u>	<u>\$ 6,240,788</u>
Amounts due in less than one year	3,224,926	4,882,480
Amounts due from one to five years	273,313	1,358,308
	<u>\$ 3,498,239</u>	<u>\$ 6,240,788</u>

4. STUDENT LOANS RECEIVABLE

Student loans receivable of \$5,185,717 and \$5,065,325 at June 30, 2013 and 2012, respectively, consists principally of amounts loaned to students under the Federal Perkins Loan Program. The portion of these loans due to the Federal government upon liquidation of the loan program has been recorded as a liability in the statements of financial position. This liability totals \$3,686,668 and \$3,672,423 at June 30, 2013 and 2012, respectively.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

5. CREDIT QUALITY OF FINANCING RECEIVABLES

The majority of the Seminary's financing receivables consist of a revolving loan fund for Federal Perkins loans for which the Seminary acts as an agent for the federal government and an institutional loan fund created by the Seminary to assist students in funding their education. At June 30, 2013 and 2012, the Seminary's financing receivables represented 2.2% and 2.1% of total assets, respectively.

The availability of funds for loans under the Federal Perkins loan program is dependent on reimbursements to the pool from repayments on outstanding loans. Student loans under the Federal Perkins loan program can be assigned to the federal government when no longer collectible, and, therefore, when they are written off, they reduce the amount refundable to the federal government.

Balances of financing receivables at June 30, 2013 are presented as follows:

	Federal Perkins Loan Program Receivables	Institutional Loans	Faculty Mortgage Loans	Total
Financing receivables: Ending balance	<u>\$ 4,513,224</u>	<u>\$ 672,493</u>	<u>\$ 169,123</u>	<u>\$ 5,354,840</u>
Ending balance: Collectively evaluated for impairment	<u>\$ 4,513,224</u>	<u>\$ 672,493</u>	<u>\$ 169,123</u>	<u>\$ 5,354,840</u>

Balances of financing receivables at June 30, 2012 are presented as follows:

	Federal Perkins Loan Program Receivables	Institutional Loans	Faculty Mortgage Loans	Total
Financing receivables: Ending balance	<u>\$ 4,540,565</u>	<u>\$ 524,760</u>	<u>\$ 164,592</u>	<u>\$ 5,229,917</u>
Ending balance: Collectively evaluated for impairment	<u>\$ 4,540,565</u>	<u>\$ 524,760</u>	<u>\$ 164,592</u>	<u>\$ 5,229,917</u>

For each class of financing receivable, the following table presents the recorded investment by credit quality indicator as of June 30, 2013:

	Federal Perkins Loan Program Receivables	Institutional Loans	Faculty Mortgage Loans	Total
Performing	\$ 4,513,224	\$ 672,493	\$ 169,123	\$ 5,354,840
Non-performing	-0-	-0-	-0-	-0-
	<u>\$ 4,513,224</u>	<u>\$ 672,493</u>	<u>\$ 169,123</u>	<u>\$ 5,354,840</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

For each class of financing receivable, the following table presents the recorded investment by credit quality indicator as of June 30, 2012:

	Federal Perkins Loan Program Receivables	Institutional Loans	Faculty Mortgage Loans	Total
Performing	\$ 4,540,565	\$ 524,760	\$ 164,592	\$ 5,229,917
Non-performing	-0-	-0-	-0-	-0-
	<u>\$ 4,540,565</u>	<u>\$ 524,760</u>	<u>\$ 164,592</u>	<u>\$ 5,229,917</u>

For educational assistance loans, the credit quality indicator is performance determined by the delinquency status. Delinquency status is updated monthly by the Seminary's loan servicer. Amounts due under the Federal Perkins loan program are guaranteed by the government and, therefore, no reserves are placed on any past due balances under the program. Faculty mortgage loans are collateralized by the related properties. No allowance for doubtful accounts has been recorded against these loans based on the collateralization and prior collection history. Loan balances are written off only when they are deemed to be permanently uncollectible. The Seminary determines the allowance for estimated losses on these financing receivables by looking at historical default rates and analyzing the aging of past due loans. Any non-performing loans would be included in the allowance for estimated losses. At June 30, 2013 and 2012, no loans were considered to be non-performing or impaired and accordingly there were no allowances for estimated losses.

The aging of the financing receivables portfolio by classes as of June 30, 2013 is presented as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Current	Total
Federal Perkins Loan program receivables	\$ -0-	\$ 1,131	\$ 429,583	\$ 4,082,510	\$ 4,513,224
Institutional loans	-0-	-0-	63,788	608,705	672,493
Faculty mortgage loans	-0-	-0-	17,626	151,497	169,123
	<u>\$ -0-</u>	<u>\$ 1,131</u>	<u>\$ 510,997</u>	<u>\$ 4,842,712</u>	<u>\$ 5,354,840</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

6. INVESTMENTS

Investments are comprised of the following at June 30:

	2013		2012	
	Cost	Value *	Cost	Value *
<i>Fixed-income investments:</i>				
Cash	\$ 13,558,365	\$ 13,558,365	\$ 21,385,740	\$ 21,385,740
U.S. Government and agency bonds	4,690,576	4,488,659	6,075,195	6,175,508
Mutual funds	8,745,613	8,416,587	14,302,760	14,537,076
Exchange traded funds	2,535,499	1,317,045	2,535,499	2,509,421
Life insurance and annuity contracts	90,680	90,680	76,556	76,556
Total fixed-income investments	29,620,733	27,871,336	44,375,750	44,684,301
<i>Equity investments:</i>				
Common stocks	35,508,035	29,379,167	35,508,035	37,688,022
Mutual funds	15,579,169	17,295,478	15,579,169	15,723,777
Exchange traded funds	16,052,252	35,727,466	16,052,252	16,773,858
Alternative investments	30,273,816	32,382,453	31,523,000	31,288,999
Total equity investments	97,413,272	114,784,564	98,662,456	101,474,656
<i>Other investments:</i>				
Rental properties**	288,550	281,080	288,550	288,550
Real estate	398,332	398,332	198,332	198,332
Mineral rights	1,063	1,063	1,063	1,063
Total other investments	687,945	680,475	487,945	487,945
Total investments	\$ 127,721,950	\$ 143,336,375	\$ 143,526,151	\$ 146,646,902

* Fixed-income and equity investments are reported at fair value. Other investments are reported at carrying value which represents cost if purchased, or fair value as of the date of the gift if contributed.

** Rental properties are reported net of an allowance for depreciation.

The Seminary maintains pooled investment accounts for its donor-restricted and board-designated endowments. The carrying value of the pooled investment accounts, at June 30, 2013 and 2012, included in investments above was \$132,163,895 and \$123,060,958 respectively.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

The following schedule summarizes the investment return for the years ended June 30:

	2013	2012
Dividends and interest (net of expenses, \$418,710 and \$505,652, respectively)	\$ 2,191,132	\$ 2,066,470
Rents (net of expenses, \$271 in both)	(271)	(271)
Net realized gains	3,650,897	4,001,888
Net unrealized gains (losses)	8,701,151	(11,323,494)
Total return on investments	14,542,909	(5,255,407)
Investment return designated for current operations	(6,327,697)	(5,713,055)
Investment return reinvested	<u>\$ 8,215,212</u>	<u>\$ (10,968,462)</u>

Included in investment return above is the Seminary's return on alternative investments which was as follows for the year ended June 30:

	2013	2012
Dividends and interest	\$ 18,798	\$ 18,795
Net realized gains	1,176,401	710,065
Net unrealized gains (losses)	2,342,938	(1,752,890)
Total	<u>\$ 3,538,137</u>	<u>\$ (1,024,030)</u>

7. FUNDS HELD IN TRUSTS BY OTHERS

Funds held in trusts by others consist of the following at June 30:

	2013	2012
Life income trusts held by others:		
Francis Gillespie Trust	\$ 38,078	\$ 35,531
Residual interest in trusts held by others:		
Newman and Lena Harris Theological Memorial Fund	258,136	258,887
Beeson Memorial Scholarship Fund	573,821	545,306
Sallie Maude Jones Fund	277,090	265,591
Viola B. McEwen Trust	1,023,735	995,251
The Howard and Zeta Orchard Charitable Trust	90,449	76,828
Total	<u>\$ 2,261,309</u>	<u>\$ 2,177,394</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

8. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant, and equipment, net consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 7,624,847	\$ 7,624,847
Buildings	75,181,275	58,586,775
Furniture, fixtures, and equipment	19,309,501	18,624,889
Library books	8,987,992	8,500,772
Construction in progress	11,043,719	14,602,479
	<u>122,147,334</u>	<u>107,939,762</u>
Less accumulated depreciation	32,649,799	30,738,437
Property, plant, and equipment, net	<u>\$ 89,497,535</u>	<u>\$ 77,201,325</u>

9. DEBT ISSUANCE COSTS, NET

Amortization expense for the years ended June 30, 2013 and 2012 was \$5,000 and \$2,496, respectively. Accumulated amortization was \$7,496 and \$2,496 as of June 30, 2013 and 2012, respectively.

Future amortization of the Seminary's debt issuance costs is as follows:

<u>Year ended June 30:</u>	
2014	\$ 5,000
2015	5,000
2016	5,000
2017	5,000
2018	5,000
2019 and thereafter	2,504
	<u>\$ 27,504</u>

10. LINE OF CREDIT

The Seminary has available a line of credit with its broker which provides for borrowings up to \$10,000,000. The purpose of the line of credit is to provide cash flow for operations. The line of credit is secured by substantially all of the Seminary's real property with a net book value of approximately \$72,300,000 and \$56,500,000 at June 30, 2013 and 2012, respectively. The line of credit matures March 8, 2014 unless renewed and interest is payable monthly at LIBOR as defined in the line of credit agreement, plus 2.15%. No amounts were outstanding at June 30, 2013 and 2012.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

11. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2013</u>	<u>2012</u>
Note payable - bank, payable in monthly installments of \$40,038 including interest at a rate of 3.14% through December 31, 2018 with a final payment of \$5,148,899 including interest due January 1, 2019.	\$ 6,731,634	\$ 6,993,238
 Note payable - bank, payable in monthly installments of \$6,483 including interest at a rate of 4.80% through December 31, 2018 with a final payment of \$754,784 due January 1, 2019.	 950,065	 980,808
	<u>7,681,699</u>	<u>7,974,046</u>
Less current portion	(302,328)	(292,347)
Total	<u>\$ 7,379,371</u>	<u>\$ 7,681,699</u>

The above notes are secured by substantially all real property and improvements thereon of the Seminary with a net book value of approximately \$72,300,000 and \$56,500,000 at June 30, 2013 and 2012, respectively, and an assignment of leases and rents covering real property of the Seminary.

Maturities on long-term debt are as follows:

<u>Year ended June 30:</u>	
2014	\$ 302,328
2015	312,659
2016	322,708
2017	334,395
2018	345,849
2019 and thereafter	<u>6,063,760</u>
	<u>\$ 7,681,699</u>

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12. BONDS PAYABLE

In August 2006, the City of Wilmore, Kentucky, issued Industrial Building Revenue Bonds (the "Bonds") in the aggregate principal amount of \$8,100,000. The proceeds of the Series 2006 bonds were loaned to the Seminary to pay the outstanding balance on an \$8,000,000 term note payable incurred by the Seminary to finance the construction, equipping, furnishing, and installation of a physical plant and to pay certain cost of issuance of the Bonds.

During the year ended June 30, 2012, the Seminary repaid the loan and the City of Wilmore repaid the Bonds in full. As a result, the Seminary recognized a loss on debt extinguishment of \$496,402 for the year ended June 30, 2012.

13. ANNUITIES PAYABLE AND TRUST OBLIGATIONS

Contributions received by the Seminary under gift annuity and life income agreements are recorded at fair value at the date of the contribution. Under the terms of these agreements, the Seminary holds the assets contributed and makes periodic payments of a fixed amount to the annuitant or beneficiary for the remainder of the annuitant's or beneficiary's lifetime. Total assets held under gift annuity agreements at June 30, 2013 and 2012, amount to \$6,071,714 and \$6,646,248, respectively. Total assets recorded under life income agreements at June 30, 2013 and 2012 amount to \$836,399 and \$805,524, respectively. Annuities payable and trust obligations are carried at fair value measured as the net present value of the obligations and calculated using the applicable federal rates, which range from 4% to 6% and life expectancy tables. Annuities payable total \$2,265,819 and \$2,582,064, at June 30, 2013 and 2012, respectively. Trust obligations under life income agreements total \$549,293 and \$533,460, at June 30, 2013 and 2012, respectively.

To accept annuities written in the state of Wisconsin, the Seminary is required by state law to limit investments in the common stock of a single corporation to 3% of total investments and investments in a single issuer and its affiliates other than the government of the United States to 10% of total investments. To accept annuities written in the state of California, the Seminary is required by state law to have a trust company invest those funds in a separate trust account with equity investments limited to 50% of total investments. To accept annuities written in the state of Florida, the Seminary is required by state law to maintain a segregated trust with equity investments (including mutual funds) limited to 50% of total investments with no more than 10% of any one stock or fund. The Seminary is in compliance with the respective investment restrictions as applicable to annuities written in each respective state.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

14. INTEREST RATE SWAP AGREEMENT

In August 2006, the Seminary entered into an interest rate swap agreement, with an effective date of August 17, 2006 and a termination date of September 1, 2016. The agreement was executed with the purpose of fixing the interest rate on the bonds payable to the City of Wilmore. Under the terms of the agreement the Seminary will pay a fixed rate of 4.18% to Regions Bank on a monthly basis. The notional amount of the contract as of June 30, 2011 was \$7,310,000. During the year ended June 30, 2012, the Seminary terminated the swap agreement. As a result, the Seminary made a one-time termination payment to Regions Bank of approximately \$991,000.

The agreement was not designated as a hedging instrument and was marked-to-market on the balance sheet at fair value at the end of each period. The related gains or losses have been included in the change in net assets from operating activities for the reporting period. Cash flows from the interest rate swap contract are classified as operating activity on the statement of cash flows.

The loss recognized and reported in institutional support in the statement of activities for the year ended June 30, 2012 was determined as follows:

Fair value at June 30, 2011	\$ 875,000
Swap termination payment	991,000
Loss recognized on termination	<u>\$ (116,000)</u>

15. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Seminary has the ability to access.

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Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011. The Seminary's policy is to recognize transfers, if any, between levels as of the beginning of the year.

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded. The fair value of the Level 3 common stocks represents the Seminary's investment in the stock of a bank that is not readily traded and is recorded based on estimated fair values provided to the bank by a third party appraiser.

Mutual and exchange traded funds: Valued at the daily closing price as reported by the fund. Mutual and exchange traded funds held by the Seminary are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Seminary are deemed to be actively traded.

U.S. Government and agency bonds and other investments: Valued using pricing models maximizing the use of observable inputs for similar securities.

Alternative investments: The Seminary records its investment in alternative investments based on the units owned valued at the net asset value as of the measurement date as provided by the fund managers. In addition, the Seminary monitors the overall financial performance of the alternative investments through consultation with the Seminary's independent investment advisor and by reviewing the financial statements and other information related to each investment on an ongoing basis. Certain alternative investments can be redeemed as often as

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quarterly and as a result the measurement falls within Level 2 of the fair value hierarchy. All others fall within Level 3 of the fair value hierarchy.

Funds held in trust by others: Valued at fair value as reported by the trustee, which represents the Seminary's pro rata interest in the net assets of the trust, substantially all of which are valued on a mark-to-market basis.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Seminary believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain investments could result in different fair value measurements at the reporting date.

Annuity and trust obligations are calculated and recorded using discount rates and actuarial assumptions as supplied by the American Council on Gift Annuities which represents the fair value of expected future cash flows from the Seminary to beneficiaries.

The following tables set forth by level within the fair value hierarchy investment assets and liabilities as of June 30, 2013 and the changes in fair value of the Seminary's Level 3 investments assets.

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Fair value measurements as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
U.S. Government and agency bonds	\$ -0-	\$ 4,488,659	\$ -0-	\$ 4,488,659
Common stocks:				
Basic materials	847,217	-0-	-0-	847,217
Communication services	1,866,906	-0-	-0-	1,866,906
Consumer cyclical	1,975,025	-0-	-0-	1,975,025
Consumer defensive	3,069,585	-0-	-0-	3,069,585
Energy	2,496,875	-0-	-0-	2,496,875
Financial services	4,418,766	-0-	-0-	4,418,766
Healthcare	3,869,106	-0-	-0-	3,869,106
Industrials	4,815,035	-0-	-0-	4,815,035
Real estate	901,926	-0-	-0-	901,926
Technology	4,389,872	-0-	-0-	4,389,872
Utilities	728,854	-0-	-0-	728,854
Mutual and exchange traded funds:				
Diversified emerging markets	1,796,466	-0-	-0-	1,796,466
Intermediate-term bond	1,846,875	-0-	-0-	1,846,875
Large blend	25,452,498	-0-	-0-	25,452,498
Small blend	2,530,170	-0-	-0-	2,530,170
World bond	6,818,343	-0-	-0-	6,818,343
Asset backed securities	1,598,245	-0-	-0-	1,598,245
World allocation	3,353,655	-0-	-0-	3,353,655
Foreign small/mid blend	8,378,330	-0-	-0-	8,378,330
Foreign Large blend	5,050,608	-0-	-0-	5,050,608
Equity precious metals	4,579,329	-0-	-0-	4,579,329
Other	1,352,057	-0-	-0-	1,352,057
Other	-0-	90,680	-0-	90,680
Funds held in trust by others	-0-	-0-	2,261,309	2,261,309
Alternative investments	-0-	16,730,731	15,651,722	32,382,453
Total investments at fair value	<u>\$ 92,135,743</u>	<u>\$ 21,310,070</u>	<u>\$ 17,913,031</u>	<u>131,358,844</u>
Cash				13,558,365
Total investments				<u>\$ 144,917,209</u>
Liabilities at fair value:				
Annuities payable	\$ -0-	\$ 2,265,819	\$ -0-	\$ 2,265,819
Trust obligations	-0-	549,293	-0-	549,293
Total liabilities at fair value	<u>\$ -0-</u>	<u>\$ 2,815,112</u>	<u>\$ -0-</u>	<u>\$ 2,815,112</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

Fair value measurements as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Investments at fair value:				
U.S. Government and agency bonds	\$ -0-	\$ 6,175,508	\$ -0-	\$ 6,175,508
Common stocks:				
Basic materials	1,246,004	-0-	-0-	1,246,004
Communication services	2,215,254	-0-	-0-	2,215,254
Consumer cyclical	4,150,615	-0-	-0-	4,150,615
Consumer defensive	3,004,610	-0-	-0-	3,004,610
Energy	3,362,827	-0-	-0-	3,362,827
Financial services	5,866,250	-0-	-0-	5,866,250
Healthcare	5,492,848	-0-	-0-	5,492,848
Industrials	4,144,272	-0-	-0-	4,144,272
Real estate	690,003	-0-	-0-	690,003
Technology	6,318,161	-0-	-0-	6,318,161
Utilities	957,946	-0-	-0-	957,946
Other	-0-	-0-	239,232	239,232
Mutual and exchange traded funds:				
Diversified emerging markets	5,152,017	-0-	-0-	5,152,017
Intermediate-term bond	2,592,050	-0-	-0-	2,592,050
Large blend	11,342,086	-0-	-0-	11,342,086
Small blend	2,048,428	-0-	-0-	2,048,428
World bond	10,894,825	-0-	-0-	10,894,825
Asset backed securities	2,936,863	-0-	-0-	2,936,863
World allocation	3,996,875	-0-	-0-	3,996,875
Foreign small/mid blend	7,363,172	-0-	-0-	7,363,172
Other	3,217,816	-0-	-0-	3,217,816
Other	-0-	76,556	-0-	76,556
Funds held in trust by others	-0-	-0-	2,177,394	2,177,394
Alternative investments	-0-	21,245,090	10,043,909	31,288,999
Total investments at fair value	<u>\$ 86,992,922</u>	<u>\$ 27,497,154</u>	<u>\$ 12,460,535</u>	<u>126,950,611</u>
Cash				21,385,740
Total investments				<u>\$ 148,336,351</u>
Liabilities at fair value:				
Annuities payable	\$ -0-	\$ 2,582,064	\$ -0-	\$ 2,582,064
Trust obligations	-0-	533,460	-0-	533,460
Total liabilities at fair value	<u>\$ -0-</u>	<u>\$ 3,115,524</u>	<u>\$ -0-</u>	<u>\$ 3,115,524</u>

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Changes in Level 3 assets and liabilities during the year ended June 30, 2013:

		Investments	
	Coporate stocks	Alternative investments	Funds held in trust by others
Beginning balance	\$ 239,232	\$ 10,043,909	\$ 2,177,394
Purchases and issuances	-0-	4,791,974	-0-
Investment return, net	-0-	2,467,449	83,915
Redemptions and settlements	(239,232)	(1,651,610)	-0-
Total	<u>\$ -0-</u>	<u>\$ 15,651,722</u>	<u>\$ 2,261,309</u>

Changes in Level 3 assets and liabilities during the year ended June 30, 2012:

		Investments	
	Coporate stocks	Alternative investments	Funds held in trust by others
Beginning balance	\$ 101,813	\$ 20,042,053	\$ 2,310,711
Purchases and issuances	137,419	1,629,913	-0-
Investment return, net	-0-	1,253,556	(133,317)
Redemptions and settlements	-0-	(2,799,609)	-0-
Transfers to level 2	-0-	(10,082,004) *	-0-
Total	<u>\$ 239,232</u>	<u>\$ 10,043,909</u>	<u>\$ 2,177,394</u>

* Transfers out of Level 3 represent balances as of the beginning of the year and are based on new information becoming available related to the redemption frequency of the Seminary's investment in an alternative investment fund which is now being categorized as Level 2.

Alternative investments are less liquid than the Seminary's other investments. These investments are reported at estimated fair value using net asset value as a practical expedient which can be determined using observable and unobservable inputs.

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The following table summarizes these investments by investment category, strategy and redemption frequency at June 30:

2013

Alternative investment category, redemption frequency	Funds	Unfunded Commitments	Cost	Fair Value
Managed futures fund, daily (1)	1	\$ -0-	\$ 5,881,101	\$ 5,401,344
Fund of funds hedge fund, at least quarterly (2)	2	-0-	8,500,000	9,099,204
Special investment opportunity, at least quarterly (3)	1	-0-	1,387,451	2,230,183
Private equity fund, non- redeemable (4)	3	6,520,450	4,432,804	5,666,098
Real estate fund, non-redeemable (5)	3	740,895	3,219,389	3,100,528
Fund of funds hedge fund, non- redeemable (6)	2	-0-	938,719	849,124
Timberland fund, non- redeemable (7)	1	-0-	3,000,000	2,814,714
Opportunistic Mortgage Income Fund, at least quarterly (8)	1	-0-	2,914,352	3,221,258
	<u>14</u>	<u>\$ 7,261,345</u>	<u>\$ 30,273,816</u>	<u>\$ 32,382,453</u>

2012

Alternative investment category, redemption frequency	Funds	Unfunded Commitments	Cost	Fair Value
Managed futures fund, daily (1)	1	\$ -0-	\$ 8,000,000	\$ 7,613,710
Fund of funds hedge fund, at least quarterly (2)	2	-0-	8,500,000	8,477,220
Special investment opportunity, at least quarterly (3)	1	-0-	3,803,134	5,154,160
Private equity fund, non- redeemable (4)	3	5,144,883	3,859,596	4,026,758
Real estate fund, non-redeemable (5)	2	1,326,526	2,683,726	2,024,037
Fund of funds hedge fund, non- redeemable (6)	1	-0-	1,676,544	1,493,114
Timberland fund, non- redeemable (7)	1	-0-	3,000,000	2,500,000
	<u>11</u>	<u>\$ 6,471,409</u>	<u>\$ 31,523,000</u>	<u>\$ 31,288,999</u>

- (1) This category includes a multi-manager fund which achieves diversification through both manager trading style and market sector levels. The trading fund managers use a range of trading styles including long-term trend following; short-term systematic, value, discretionary macro and specialist foreign exchange strategies. Market exposure is broadly diversified with positions in global currency, financial and commodity markets. The fair value of the

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investment in this category has been estimated using the net asset value per share of the fund.

- (2) This category includes investment in two funds. One fund invests in publicly traded equity securities issued by non-U.S. companies. The other fund is a feeder fund which invests in a master fund. The master fund employs multiple strategies which include but are not limited to the following: private investments, hedge fund strategies, opportunistic equity, enhanced fixed income, absolute return, and tactical trading. The fair values of the investments in this category have been estimated using the net asset value per share of the funds.
- (3) This fund includes an investment in niche opportunities, primarily in credit, to maximize gains from the illiquidity premium through the use of the following hedge fund strategies: structured credit, distressed credit, pools of whole loans, bank debt, direct lending, and asset backed lending. The fair value of the investment in this category has been estimated using the net asset value per share of the investment.
- (4) This category includes funds which emphasize private equity while also looking to buyouts, venture capital, special situations, distressed securities and other non-traditional categories where there is a belief that the risk adjusted returns or diversification benefits from such categories may be compelling. Generally, the partnership's underlying investments are valued at an amount equal to the partnerships pro-rata interest in the net assets of such investments as such value is supplied or provided on behalf of the investments respective investment managers.
- (5) This category includes funds which seek superior returns through investments in undervalued or inappropriately capitalized U.S. and non-U.S. real estate assets and portfolios, and corporate real estate. The underlying real estate investments are valued at fair value which is determined based on the funds allocable share of the underlying entities partner's capital pursuant to the distribution provisions provided for in the underlying joint venture or operating agreements.
- (6) This category of funds seek to generate capital appreciation over the long term through a portfolio having a diversified risk profile with relatively low volatility and a low correlation with traditional equity and fixed income markets. The fair values of the investments in this category have been estimated using the net asset value per share of the fund.
- (7) This category includes a fund which invests primarily in timberland assets. The underlying real estate assets are primarily valued using any or all of the following three methods, performed annually by independent appraisers; sales comparison approach; cost approach; and income approach. The fair value of

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the fund in this category has been estimated using the net asset value per share of the fund.

- (8) The category includes a fund which seeks to maximize total return by targeting investments in a wide range of mortgage-related securities that may offer the potential for strong cash flow yields under multiple scenarios. The fair value of the investment in this category has been estimated using the net asset value per share of the fund.

The Seminary has a number of financial instruments, none of which are held for trading purposes. The Seminary estimates that the fair value of its financial instruments at June 30, 2013, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. A reasonable estimate of the fair value of the loan balances due from students under government loan programs and advances from Federal government for student loans could not be made, as the loans cannot be sold, but only assigned to the U.S. government or its designees; the carrying value of notes receivable from students under the loan programs approximates fair value; the carrying amount reported on the balance sheet for the Seminary's notes payable approximate fair value based on the borrowing rates that are currently available to the Seminary.

16. RETIREMENT PLANS

All regular full-time employees are eligible for participation in a fully funded defined contribution retirement plan that operates under Section 403(b) of the Internal Revenue Code (IRC). The Seminary made contributions to the plan in 2013 and 2012 equal to 7% of each eligible employee's compensation. Contributions may be invested in traditional and variable annuities provided by the Teachers Insurance and Annuity Association (TIAA) or to buy accumulation units, or shares of participation in investment portfolios provided by the College Retirement Equities Fund (CREF). Seminary contributions to the plans were \$582,675 and \$574,945 for the years ended June 30, 2013 and 2012, respectively.

17. OPERATING LEASES

The Seminary leases various equipment under operating leases. Total lease expense for the years ended June 30, 2013 and 2012 was approximately \$69,000 and \$78,000, respectively. The leases expire at various times through June 2016 unless renewed or extended by the Seminary.

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The remaining future minimum lease payments are as follows:

<u>Year ended June 30:</u>	
2014	\$ 66,300
2015	66,300
2016	66,300
	<u>\$ 198,900</u>

18. INCOME TAXES

The Seminary is recognized as an organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code whereby only unrelated business income, as defined by Section 512(a)(1) of the code, is subject to Federal income tax. The Seminary's Internal Revenue Service (IRS) Form 990 (Returns of Organizations Exempt from Income Tax) for 2010, 2011 and 2012 are subject to examination by the IRS, generally for three years after they are filed.

19. FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES

Expenses, summarized by functional classifications for the years ended June 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Program activities	\$ 17,722,074	\$ 17,730,745
General and administrative	4,920,557	5,067,410
Fundraising	1,263,420	1,291,549
Total	<u>\$ 23,906,051</u>	<u>\$ 24,089,704</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

20. NATURAL CLASSIFICATION OF OPERATING EXPENSES

Expenses, summarized by natural classifications for the years ended June 30, 2013 and 2012, are as follows:

	2013	2012
Salaries and wages	\$ 12,306,333	\$ 11,830,180
Fringe benefits	2,422,493	2,461,908
Services	4,071,647	4,567,991
Supplies	660,545	687,943
Utilities	904,453	799,299
Scholarships	381,623	565,740
Travel	670,040	635,022
Insurance	287,170	309,908
Interest expense	265,103	421,819
Loan administration and other expenses	25,282	19,176
Depreciation	1,911,362	1,790,718
Total	<u>\$ 23,906,051</u>	<u>\$ 24,089,704</u>

21. ENDOWMENTS

The Seminary's endowment consists of approximately 470 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

In approving endowment, spending and related policies, as part of the prudent and diligent discharge of its duties, the Seminary's Board of Trustees as authorized by Kentucky law, has relied upon the actions, reports, information, advice and counsel taken or provided by its duly constituted committees and the duly appointed officers of the Seminary, including Seminary counsel, and in doing so has interpreted the law to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary.

As a result of this interpretation, for accounting and financial statement purposes, the Seminary classifies as permanently restricted net assets the historic dollar value of assets held as donor-restricted endowment, including any subsequent

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gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable gift instruments.

The portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Seminary in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Fund Act ("UPMIFA"). 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 purpose 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,
- (7) The investment policies of the Seminary.

Return Objectives and Risk Parameters

The Seminary has adopted investment and spending policies for endowment assets to allow the endowment funds to grow and offset any normal inflationary impact and, at the same time, provide reasonable and prudent spending income generated by the endowment funds. To accomplish this, the Seminary's investment objectives have been established to preserve purchasing power, achieve a balance between income returns and growth of principal and to seek long term growth of principal.

Strategies Employed for Achieving Objectives

The Seminary has established a strategic asset allocation which provides for diversification among asset classes and the achievement of its investment objectives within the Seminary's established risk tolerance parameters.

Pursuant to a total return investment policy, the Seminary has approved an appropriation of net investment appreciation in an amount determined to be prudent considering the Seminary's long and short term needs, present and anticipated financial requirements, and expected total return on investments, price level trends, and general economic conditions.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

Spending Policy and How Investment Objectives Relate to Spending Policy

Under the Seminary's current endowment spending policy, a board approved percentage of the moving average of the fair value during the previous three years is made available to support current operations. Annual distributions are made in accordance with donor requirements and policy guidelines. For the year ended June 30, 2013, the Seminary approved a spending policy which ranged from 5.0% to 5.5% of the moving average of the fair value during the previous three years. For the year ended June 30, 2012, the Seminary approved a spending policy of 5.0% of the moving average of the fair value during the previous three years. Certain endowment funds are subject to donor required spending policy limits which range from 4.8% and 5.0% of the moving average of the fair value during the previous three years.

In establishing this policy, the Seminary considered the long-term expected return on its assets held for endowment. Accordingly, over the long term, the Seminary expects the current spending policy to allow its endowment to grow at an average of 4% to 5% annually. This is consistent with the Seminary's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Composition of endowment net assets at June 30, 2013 was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor designated endowment funds	\$ -0-	\$ 32,545,123	\$ 100,039,423	\$ 132,584,546
Other endowment funds:				
Undesignated	(539,802)	-0-	-0-	(539,802)
Designated	543,119	-0-	-0-	543,119
Total endowment funds	<u>\$ 3,317</u>	<u>\$ 32,545,123</u>	<u>\$ 100,039,423</u>	<u>\$ 132,587,863</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

Changes in endowment net assets for the year ended June 30, 2013 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ (94,941)	\$ 25,260,106	\$ 99,015,271	\$ 124,180,436
Investment income	127,595	1,866,968	33,465	2,028,028
Net appreciation on investments	774,051	11,342,358		12,116,409
Total investment gains	901,646	13,209,326	33,465	14,144,437
Contributions	-0-	-0-	700,580	700,580
Appropriation of endowment assets for operations	(403,388)	(5,924,309)	-0-	(6,327,697)
Appropriation of endowment assets for capital projects	(400,000)	-0-	-0-	(400,000)
Transfers from matured annuities	-0-	-0-	313,214	313,214
Reclassification of endowment assets	-0-	-0-	(23,107)	(23,107)
Endowment net assets, end of year	<u>\$ 3,317</u>	<u>\$ 32,545,123</u>	<u>\$ 100,039,423</u>	<u>\$ 132,587,863</u>

Composition of endowment net assets at June 30, 2012 was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor designated endowment funds	\$ -0-	\$ 25,260,106	\$ 99,015,271	\$ 124,275,377
Other endowment funds:				
Undesignated	(638,060)	-0-	-0-	(638,060)
Designated	543,119	-0-	-0-	543,119
Total endowment funds	<u>\$ (94,941)</u>	<u>\$ 25,260,106</u>	<u>\$ 99,015,271</u>	<u>\$ 124,180,436</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

Changes in endowment net assets for the year ending June 30, 2012 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 489,090	\$ 35,692,978	\$ 96,598,018	\$ 132,780,086
Investment income	118,255	1,842,579	33,990	1,994,824
Net depreciation on investments	(261,499)	(6,920,883)	-0-	(7,182,382)
Total investment gains(losses)	(143,244)	(5,078,304)	33,990	(5,187,558)
Contributions	-0-	-0-	2,244,296	2,244,296
Appropriation of endowment assets for operations	(358,487)	(5,354,568)	-0-	(5,713,055)
Appropriation of endowment assets for capital projects	(82,300)	-0-	-0-	(82,300)
Transfers from matured annuities	-0-	-0-	57,015	57,015
Reclassification of endowment assets	-0-	-0-	81,952	81,952
Endowment net assets, end of year	<u>\$ (94,941)</u>	<u>\$ 25,260,106</u>	<u>\$ 99,015,271</u>	<u>\$ 124,180,436</u>

22. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2013 and 2012 are available for the following purposes:

	2013	2012
Endowment funds:		
Financial aid	\$ 14,898,722	\$ 10,104,042
Academic chairs	15,804,271	13,893,057
Operations and maintenance	1,842,130	1,263,007
Total endowment funds	32,545,123	25,260,106
Other funds:		
Capital projects	13,483,886	28,932,912
Restricted gifts and other	6,540,408	6,155,228
Total	<u>\$ 52,569,417</u>	<u>\$ 60,348,246</u>

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Temporarily restricted net assets released from restrictions for operations were used for the following purposes:

	2013	2012
Funds originating from endowment:		
Financial aid	\$ 2,371,614	\$ 2,323,388
Academic chairs	1,659,943	1,581,606
Operations and maintenance	1,892,752	1,449,575
Total funds originating from endowment	5,924,309	5,354,569
Funds originating from gifts and grants:		
Financial aid	1,784,953	2,260,679
Operations and maintenance	743,114	1,076,097
Total funds originating from gifts and grants	2,528,067	3,336,776
Total net assets released from restrictions for operations	\$ 8,452,376	\$ 8,691,345

Temporarily restricted net assets released from restrictions for non-operating activities in the amounts of \$15,776,131 and \$760,423 were used for investments in property plant and equipment during 2013 and 2012, respectively.

23. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net asset at June 30, 2013 and 2012 are restricted to the following:

	2013	2012
Endowment funds:		
Financial aid	\$ 46,585,350	\$ 46,115,816
Academic chairs	47,873,934	47,377,213
Operations and maintenance	5,580,139	5,522,242
Total endowment funds	100,039,423	99,015,271
Trusts, annuities, and other	1,218,102	1,327,505
Residual interest in funds held in trust by others	2,223,231	2,141,863
Total	\$ 103,480,756	\$ 102,484,639

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24. CONCENTRATIONS OF CREDIT RISK

In the normal course of business, the Seminary maintains cash balances of certain operating accounts with banks. As of June 30, 2013 and 2012 and at times during the course of the years then ended, the balances on some of these accounts exceeded the \$250,000 insurance protection provided by the Federal Deposit Insurance Corporation (FDIC) for interest bearing transaction accounts. As of June 30, 2013 and 2012, the Seminary's cash balances exceeded FDIC insurance coverage by approximately \$791,000 and \$1,181,000, respectively.

The Seminary has significant investments in stocks, bonds, and mutual funds and is, therefore, subject to concentrations of credit risk. Investment decisions are made by investment managers engaged by the Seminary and the investments are monitored by the Board of Trustees. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Seminary.

Included in accounts receivable are student accounts receivable that potentially subject the Seminary to credit risk. The Seminary extends unsecured credit to students and parents of dependent students in connection with their studies. As of June 30, 2013 and 2012, the carrying amount of accounts receivable that are past due ninety days or more totals approximately \$399,000 and \$346,000, respectively.

25. COMMITMENTS

In connection with ongoing construction projects, the Seminary has entered into a contracts totaling approximately \$11,500,000 of which approximately \$730,000 remains to be paid under these contracts as of June 30, 2013.

Subsequent to the year ended June 30, 2013, the Seminary has signed contracts for the construction of a family life center totaling approximately \$2,030,000.

26. PRIOR PERIOD ADJUSTMENTS

Based on an updated review of a 1972 trust document in 2013, management determined that certain funds held in trust by others previously included in the Seminary's net assets should not have been included in the Seminary's permanently restricted net assets. Accordingly, an adjustment totaling \$4,111,078 was recorded to restate the Seminary's permanently restricted net assets as of July 1, 2011.

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An error resulting in a misstatement of contributions receivable as of June 30, 2012 was discovered by management during 2013. Accordingly, an adjustment totaling \$5,859,420 was recorded to restate contributions receivable as of June 30, 2012.

The effect of the above prior period adjustments on the financial statements as of and for the year ended June 30, 2012 as previously reported is included in the table below.

	As previously reported at June 30, 2012	Prior period adjustment	As restated
Statement of Financial Position:			
Current sssets			
Contributions receivable	<u>\$ 10,741,900</u>	<u>\$ (5,859,420)</u>	<u>\$ 4,882,480</u>
Non-current assets			
Funds Held in Trust by Others	<u>\$ 6,183,783</u>	<u>\$ (4,006,389)</u>	<u>\$ 2,177,394</u>
Total assets	<u>\$ 250,220,223</u>	<u>\$ (9,865,809)</u>	<u>\$ 240,354,414</u>
Net assets			
Temporarily restricted	<u>\$ 66,207,666</u>	<u>\$ (5,859,420)</u>	<u>\$ 60,348,246</u>
Permanently restricted residual interest in trusts held by others	<u>\$ 6,148,252</u>	<u>\$ (4,006,389)</u>	<u>\$ 2,141,863</u>
Statement of Activities:			
Non-operating			
Private gifts and grants	<u>\$ 30,254,393</u>	<u>\$ (5,859,420)</u>	<u>\$ 24,394,973</u>
Permanently restricted changes in value of funds held in trust by others	<u>\$ (236,101)</u>	<u>\$ 104,689</u>	<u>\$ (131,412)</u>
Change in net assets from non-operating activities	<u>\$ 19,779,278</u>	<u>\$ (5,754,731)</u>	<u>\$ 14,024,547</u>
Change in net assets	<u>\$ 16,419,714</u>	<u>\$ (5,754,731)</u>	<u>\$ 10,664,983</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

	As previously reported at June 30, 2012	Prior period adjustment	As restated
Statement of cash flows:			
Cash flow from operating activities			
Change in net assets	<u>\$ 16,419,714</u>	<u>\$ (5,754,731)</u>	<u>\$ 10,664,983</u>
Change in value of funds held in trust by others	<u>\$ 238,006</u>	<u>\$ (104,689)</u>	<u>\$ 133,317</u>
Contributions receivable	<u>\$ (11,464,133)</u>	<u>\$ 5,859,420</u>	<u>\$ (5,604,713)</u>

27. CHANGE IN METHOD OF REPORTING

On July 1, 2012, the Seminary elected to change its method of reporting donor restricted contributions and donor restricted investment income when a restriction is met in the same period as received or earned to report as net assets released from restriction rather than as unrestricted support. The new method of reporting was adopted because it is preferred by management and the financial statements as of and for the year ending June 30, 2012 have been adjusted to apply the new method retrospectively. This change in reporting had no impact on the Seminary's net assets or change in net assets as previously reported as of and for the year ended June 30, 2012, however net assets released from restrictions as previously reported under operating activities was increased from \$3,141,368 to \$8,691,345 and certain amounts as reported in the prior year have been reclassified between non-operating and operating activities to conform to the presentation used in the current year.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

The following statement of activities line items for the year ended June 30, 2012 were affected by the change in accounting principle and the resulting reclassifications (The previously reported amounts have been adjusted for the effects of the prior period adjustments disclosed in Note 26 were applicable).

	As previously reported after restatement in Note 26	As reported under the new method	Effect of change
Statement of Activities:			
Operating			
Private gifts and grants	<u>\$ 4,016,791</u>	<u>\$ 3,486,901</u>	<u>\$ (529,890)</u>
Other revenue	<u>\$ 398,883</u>	<u>\$ 435,308</u>	<u>\$ 36,425</u>
Investment return designated for current operations	<u>\$ 4,350,253</u>	<u>\$ 5,713,055</u>	<u>\$ 1,362,802</u>
Annuity and life income agreements - unrestricted	<u>\$ 22,564</u>	<u>\$ -0-</u>	<u>\$ (22,564)</u>
Change in net assets from operating activities	<u>\$ (3,359,564)</u>	<u>\$ (2,512,791)</u>	<u>\$ 846,773</u>
Non-operating			
Private gifts and grants	<u>\$ 24,394,973</u>	<u>\$ 24,924,864</u>	<u>\$ 529,891</u>
Investment return reinvested	<u>\$ (9,569,234)</u>	<u>\$ (10,968,462)</u>	<u>\$ (1,399,228)</u>
Annuity and life income agreements	<u>\$ -0-</u>	<u>\$ 22,564</u>	<u>\$ 22,564</u>
Change in net assets from non-operating activities	<u>\$ 14,024,547</u>	<u>\$ 13,177,774</u>	<u>\$ (846,773)</u>
Change in net assets	<u>\$ 10,664,983</u>	<u>\$ 10,664,983</u>	<u>\$ 0</u>