ASBURY theological SEMINARY

THE WHOLE BIBLE FOR THE WHOLE WORLD

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

ASBURY THEOLOGICAL SEMINARY

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Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 *fax* 859.253.1384 *email* blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Asbury Theological Seminary
Wilmore, Kentucky

We have audited the accompanying financial statements of Asbury Theological Seminary (the "Seminary"), which comprise the statements of financial position as of June 30, 2019 and 2018, 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 the Seminary as of June 30, 2019 and 2018, 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.

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 Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 October 31, 2019, 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
October 31, 2019

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ASBURY THEOLOGICAL SEMINARY

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS

		2019		2018
Current assets				
Cash and cash equivalents	$	18,534,405	$	13,410,453
Accrued income receivable		92,580		55,608
Accounts receivable, less allowance of $50,000 in each year		2,747,612		2,361,276
Contributions receivable, less allowance of approximately $45,000 in each year		2,948,758		2,810,523
Student loans receivable		35,543		41,831
Inventories		642,813		719,014
Prepaid expenses		311,591		123,752
Total current assets		25,313,302		19,522,457
Non-current assets				
Cash and cash equivalents - restricted		-0-		1,133,918
Contributions receivable		4,547,775		6,678,950
Student loans receivable		445,712		499,858
Investments		159,498,705		158,128,456
Funds held in trusts by others		2,270,884		2,329,611
Property, plant, and equipment, net		85,153,115		87,283,584
Other assets		15,055		2,504
Total non-current assets		251,931,246		256,056,881
Total assets	$	277,244,548	$	275,579,338

See accompanying notes to financial statements.

ASBURY THEOLOGICAL SEMINARY

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities		
Accounts payable and payroll liabilities	$ 1,421,969	$ 2,432,554
Deposits and agency funds	977,033	799,737
Deferred revenues	842,262	840,857
Interest payable	13,365	16,935
Capital lease obligation	-0-	160,475
Notes payable	326,697	6,063,883
Total current liabilities	3,581,326	10,314,441
Non-current liabilities		
Notes payable	4,674,733	-0-
Annuities payable	2,039,272	2,006,461
Federal government advances for student loans	-0-	41,606
Trust obligations	381,103	328,308
Total non-current liabilities	7,095,108	2,376,375
Total liabilities	10,676,434	12,690,816
Net assets		
Without donor restrictions		
Undesignated	2,647,870	474,614
Board designated:		
Capital reserves	2,026,685	1,658,910
Quasi-endowment fund	761,452	243,954
Annuity and life income	2,993,984	3,643,502
Net investment in plant	80,166,740	81,061,730
Total net assets without donor restrictions	88,596,731	87,082,710
With donor restrictions		
Time restricted for future periods	2,425,750	2,751,503
Purpose restricted	62,241,598	61,817,091
Perpetual in nature	113,304,035	111,237,218
Total net assets with donor restrictions	177,971,383	175,805,812
Total net assets	266,568,114	262,888,522
Total liabilities and net assets	$ 277,244,548	$ 275,579,338

See accompanying notes to financial statements.

ASBURY THEOLOGICAL SEMINARY

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating			
Revenues, gains, and other support:			
Tuition and fees	$ 17,320,951	$ -0-	$ 17,320,951
Less scholarship allowances	(7,231,837)	-0-	(7,231,837)
Tuition and fees, net	10,089,114	-0-	10,089,114
Private gifts and grants	2,637,652	4,865,060	7,502,712
Government grants	-0-	183,732	183,732
Other revenue	2,023,149	532,277	2,555,426
Investment return designated for current operations	6,213	7,642,712	7,648,925
Sales and service of auxiliary enterprises	2,044,836	456,318	2,501,154
Total revenues and gains	16,800,964	13,680,099	30,481,063
Net assets released from restrictions	13,113,259	(13,113,259)	-0-
Total revenues, gains, and other support	29,914,223	566,840	30,481,063
Expenses:			
Program services:			
Instruction	12,612,576	-0-	12,612,576
Academic support	2,951,297	-0-	2,951,297
Student services	3,027,226	-0-	3,027,226
Public service	34,425	-0-	34,425
Auxiliary enterprises	4,433,807	-0-	4,433,807
Total program services	23,059,331	-0-	23,059,331
Supporting services:			
Management and general	4,653,844	-0-	4,653,844
Fundraising and development	1,634,472	-0-	1,634,472
Total expenses	29,347,647	-0-	29,347,647
Changes in net assets from operating activities	566,576	566,840	1,133,416
Non-operating			
Private gifts and grants	657,025	1,977,459	2,634,484
Annuity and life income agreements	252,270	63,454	315,724
Investment return (loss) reinvested	-0-	(383,455)	(383,455)
Change in value of funds held in trust by others	-0-	(58,727)	(58,727)
Other revenue	57,303	-0-	57,303
Loss due to liquidation of Perkins Loan program	(19,153)	-0-	(19,153)
Changes in net assets from non-operating activities	947,445	1,598,731	2,546,176
Changes in net assets	1,514,021	2,165,571	3,679,592
Net assets at the beginning of year	87,082,710	175,805,812	262,888,522
Net assets at the end of the year	$ 88,596,731	$ 177,971,383	$ 266,568,114

See accompanying notes to financial statements.

ASBURY THEOLOGICAL SEMINARY

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating			
Revenues, gains, and other support:			
Tuition and fees	$ 16,521,310	$ -0-	$ 16,521,310
Less scholarship allowances	(7,019,662)	-0-	(7,019,662)
Tuition and fees, net	9,501,648	-0-	9,501,648
Private gifts and grants	2,327,314	9,406,225	11,733,539
Government grants	-0-	190,189	190,189
Other revenue	1,668,163	324,382	1,992,545
Investment return designated for current operations	5,352	9,836,262	9,841,614
Sales and service of auxiliary enterprises	2,021,310	495,962	2,517,272
Total revenues and gains	15,523,787	20,253,020	35,776,807
Net assets released from restrictions	14,330,280	(14,330,280)	-
Total revenues, gains, and other support	29,854,067	5,922,740	35,776,807
Expenses:			
Program services:			
Instruction	12,313,885	-0-	12,313,885
Academic support	2,450,298	-0-	2,450,298
Student services	2,756,031	-0-	2,756,031
Public service	61,222	-0-	61,222
Auxiliary enterprises	4,500,923	-0-	4,500,923
Total program services	22,082,359	-0-	22,082,359
Supporting services:			
Management and general	5,556,202	-0-	5,556,202
Fundraising and development	1,710,343	-0-	1,710,343
Total expenses	29,348,904	-0-	29,348,904
Changes in net assets from operating activities	505,163	5,922,740	6,427,903
Non-operating			
Private gifts and grants	258,689	1,346,683	1,605,372
Annuity and life income agreements	159,695	18,454	178,149
Investment return (loss) reinvested	13,324	969,946	983,270
Change in value of funds held in trust by others	-0-	39,045	39,045
Other revenue	114,700	-0-	114,700
Loss due to liquidation of Perkins Loan porgram	(697,956)	-0-	(697,956)
Net assets released from restrictions	1,144,931	(1,144,931)	-0-
Changes in net assets from non-operating activities	993,383	1,229,197	2,222,580
Changes in net assets	1,498,546	7,151,937	8,650,483
Net assets at the beginning of year	85,584,164	168,653,875	254,238,039
Net assets at the end of the year	$ 87,082,710	$ 175,805,812	$ 262,888,522

See accompanying notes to financial statements.

ASBURY THEOLOGICAL SEMINARY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities		
Changes in net assets	$ 3,679,592	$ 8,650,483
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	3,222,521	3,702,834
Loss due to liquidation of Perkins Loan program	19,153	697,956
Actuarial adjustment to annuity and trust obligations	401,003	216,831
Change in value of funds held in trust held by others	58,727	(39,045)
Net unrealized and realized losses (gains) on investments	(5,097,387)	(10,073,300)
Cash contributions restricted for capital improvements and endowment investment	(2,634,484)	(1,605,372)
Noncash contributions received	(594,293)	(552,913)
Proceeds from sale of donated securities	404,526	552,913
Investment income restricted for long-term investment	383,455	(969,946)
Net change in operating assets and liabilities:		
Accrued income receivable	(36,972)	(30,203)
Accounts receivable	(386,336)	260,567
Contributions receivable	1,992,940	(1,760,169)
Inventories	76,201	(305,925)
Prepaid expenses	(187,839)	(56,202)
Other assets	(12,551)	5,000
Accounts payable and payroll liabilities	(1,010,585)	307,020
Deposits and agency funds	177,296	(79,065)
Deferred revenues	1,405	(208,516)
Interest payable	(3,570)	(959)
Net cash flows from operating activities	452,802	(1,288,011)
Cash Flows from Investing Activities		
Purchases of investments	(72,891,285)	(88,617,995)
Proceeds from sales and maturities of investments	76,871,515	96,060,038
Purchase of property, plant, and equipment	(1,092,052)	(1,924,276)
Student loans	(141,921)	(144,092)
Student loan repayments	155,882	210,667
Change in cash restricted for federal Perkins loan program	1,133,918	(33,479)
Net cash flows from investing activities	4,036,057	5,550,863

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash Flows from Financing Activities		
Cash contributions restricted for capital improvements and endowment investment	2,634,484	1,605,372
Proceeds received on annuity agreements	179,141	117,017
Contractual payments on annuity obligations	(547,333)	(269,100)
Contractual payments on trust obligations	(10,530)	(9,452)
Investment income restricted for long-term investment	(383,455)	969,946
Principal payments on notes payable	(6,197,493)	(345,832)
Payments on capital lease obligations	(160,475)	(490,036)
Proceeds from issuance on long term debt	5,135,040	-0-
Change in federal government advances for student loans	(14,286)	-0-
Net cash flows from financing activities	635,093	1,577,915
Net change in cash and cash equivalents	5,123,952	5,840,767
Cash and cash equivalents at beginning of year	13,410,453	7,569,686
Cash and cash equivalents at end of year	$ 18,534,405	$ 13,410,453
Supplemental disclosure of cash flow information:		
Cash paid for interest net of amounts capitalized	$ 225,100	$ 245,662
Student loans receivable assigned to the U.S. Department of Education in connection with liquidation of Perkins loan program	$ 46,473	$ 3,578,104
Decrease in federal government advances for student loan assigned to the U.S. Department of Education in connection liquidation of Perkins loan program	$ 25,965	$ 3,790,138
Noncash investing and financing activities:		
Donated securities	$ 594,293	$ 552,913

See accompanying notes to financial statements.

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 restrictions. Accordingly, the net assets of the Seminary are classified and reported as follows:

> Net assets without donor restrictions: Net assets that are currently available for operating purposes under the direction of the board or designated by board for specific use.
>
> Net assets with donor restrictions: Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations 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.

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. 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. 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, 2019 and 2018.

Expiration of Donor Restrictions

The expiration of a donor 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 net assets without donor restriction. 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 restricted contributions and donor restricted investment income as donor 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

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.

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 previous experience. 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 of amounts loaned to students based on demonstrated financial need. 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 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, 2019 and 2018. Management has determined that such an allowance would not be material.

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.

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.

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

Prior to February 6, 2019, the Seminary participated in the Federal Perkins Loan Prgoram (the "Program"). During 2017, the Seminary filed a request with the U.S. Department of Education to liquidate its Federal Perkins Loan Program portfolio and to discontinue its participation in the program. As of June 30, 2018, the Seminary had made $752,041 in institutional capital contributions, which were reflected as part of the Seminary's liabilities. Under guidance issued by the Department of Education, at the time the Seminary liquidated the loan portfolio and assigned the student loans to the Department of Education, the Seminary had to forgo its institutional capital contribution not yet received back through loan collections. As of June 30, 2019, all loans have been assigned to the Department of Education, the Seminary had forgone its institutional capital contribution, and had paid $926,070 to the Department of Education for the final capital distribution payment on October 19, 2018. The Seminary has completed the liquidation process as of February 6, 2019, and there were no Perkins loan balances remaining outstanding at June 30, 2019.

Inventories

Inventories consist of literature, maintenance, and other supply items and are stated at the lower of cost or net realizable value, 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 valued at the closing price reported on the active market on which the individual securities are traded. For certain thinly-traded equity and fixed income securities, market prices are obtained from the Seminary's investment managers. Mutual and exchange traded funds are carried at fair values based on the daily closing price as reported by the funds.

Alternative investments, which are not readily marketable, are carried at net asset value (NAV) of the units of the investment, as provided by the investment manager, as a practical expedient to estimate fair value.

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 carrying value 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 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 support without donor restrictions.

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.

Deferred Revenue

Deferred revenues consist principally of prepaid rent and tuition.

Federal Government Advances for Student Loans

Funds provided by the United States government pursuant to the Perkins Loan program were loaned to qualified students and re-loaned upon collection. Since these funds were ultimately distributable to the federal government upon liquidation of the program, the advances were reflected as liabilities on the balance sheet. As of June 30, 2019, the Seminary has liquidated the program, all loans have been assigned to the Department of Education, and all federal government advances have been repaid to the Department of Education.

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 October 31, 2019, which is the date the financial statements were available to be issued.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606),* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is permitted in 2019. The updated standard becomes effective for the Seminary in fiscal year 2020. The Seminary has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new standard, which the Seminary is not required to adopt until its year ending June 30, 2020, is intended to enhance the reporting model for financial instruments to provide financial statement users with more decision-useful information. For nonprofit organizations, the new guidance in ASU 2016-01 primarily affects the accounting for investments in equity securities and certain presentation and disclosure requirements. The Seminary is currently evaluating the effect that the updated standard will have on the financial statements.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the Seminary is not required to adopt until its year ending June 30, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position. The Seminary is currently evaluating the effect that the updated standard will have on the financial statements.

On November 17, 2016, the FASB issued an ASU No. 2016-18 *Statement of Cash (Topic 230) – Restricted Cash*. This new standard intends to eliminate diversity in practice by requiring the statement of cash flows to present the change in the total cash and cash equivalents, which will include restricted cash and cash equivalents. The Seminary will be required to adopt this new standard in the year ending June 30, 2020. The Seminary is currently evaluating the effect that the updated standard will have on the financial statements.

On June 21, 2018, the FASB issued ASU No. 2018-08, *Accounting for Contributions Received and Contributions Made*. This new standard, which the Seminary is not required to adopt until its year ending June 30, 2020, is intended to clarify and improve the scope and the accounting guidance for contributions received and made by not-for-profit organizations. This new standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The Seminary is currently evaluating the effect that the updated standard will have on the financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This new standard, which the Seminary is not required to adopt until its year ending June 30, 2021, modifies the disclosure requirements on fair value measurements in Topic 820. The Seminary is currently evaluating the effect that the updated standard will have on the financial statements.

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 3.00%.

Contributions receivable consist of the following at June 30:

	2019	2018
Amounts due in less than one year	2,948,758	2,810,523
Amounts due from one to five years	4,760,335	6,383,864
Amounts due in more than five years	400,000	919,984
	8,109,093	10,114,371
Less allowance for uncollectible pledges	45,000	45,000
Less unamortized discount	567,560	579,898
Net contributions receivable	$ 7,496,533	$ 9,489,473

4. INVESTMENTS AND 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.

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 June 30, 2019 and 2018.

Money market mutual funds: Generally, transact subscription and redemption activity at a $1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

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 NAV and to transact at that price. The funds held by the Seminary are deemed to be actively traded.

Other investments: Valued using pricing models maximizing the use of observable inputs for similar assets and securities.

Alternative investments: Valued at the NAV of units of the investee. The NAV, as provided by the investment manager, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the investee less its liabilities. Due to the nature of the investments held by the investee, changes in market conditions and the economic environment may significantly impact the net asset value of the investee and, consequently, the fair value of the Seminary's interests in the investee.

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.

Annuity and trust obligations: 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 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.

The following tables set forth by level within the fair value hierarchy investment assets and liabilities as of June 30, 2019 and 2018, and the changes in fair value of the Seminary's Level 3 investments assets for the years then ended.

Fair value measurements as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Money market mutual funds	$ -0-	$ 1,641,771	$ -0-	$ 1,641,771
Common stocks:				
Basic materials	2,265,833	-0-	-0-	2,265,833
Communication services	1,101,406	-0-	-0-	1,101,406
Energy	592,880	-0-	-0-	592,880
Financials	145,164	-0-	-0-	145,164
Healthcare	186,010	-0-	-0-	186,010
Industrials	1,373,494	-0-	-0-	1,373,494
Real estate	150,072	-0-	-0-	150,072
Technology	1,049,805	-0-	-0-	1,049,805
Mutual and exchange traded funds (ETF):				
Equity				
Large	17,106,512	-0-	-0-	17,106,512
Small/mid	28,944,468	-0-	-0-	28,944,468
Fixed Income				
Intermediate	9,375,689	-0-	-0-	9,375,689
Other	8,415,348	-0-	-0-	8,415,348
ETF				
Large	3,905,614	-0-	-0-	3,905,614
Intermediate	1,976,619	-0-	-0-	1,976,619
Other investments	-0-	83,137	-0-	83,137
Funds held in trust by others	-0-	-0-	2,270,884	2,270,884
Total investments and funds held in trust by others at fair value	$ 76,588,914	$ 1,724,908	$ 2,270,884	80,584,706
Alternative investments*				77,047,722
Other				2,901,657
Cash				1,235,504
Total investments and funds held in trust by others				$ 161,769,589
Liabilities at fair value:				
Annuities payable	$ -0-	$ 2,039,272	$ -0-	$ 2,039,272
Trust obligations	-0-	381,103	-0-	381,103
Total liabilities at fair value	$ -0-	$ 2,420,375	$ -0-	$ 2,420,375

Fair value measurements as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Money market mutual funds	$ -0-	$ 667,167	$ -0-	$ 667,167
Common stocks:				
Basic materials	32,044	-0-	-0-	32,044
Communication services	147,315	-0-	-0-	147,315
Consumer discretionary	1,700,657	-0-	-0-	1,700,657
Energy	258,288	-0-	-0-	258,288
Financials	388,614	-0-	-0-	388,614
Healthcare	1,585,180	-0-	-0-	1,585,180
Industrials	992,919	-0-	-0-	992,919
Real estate	180,916	-0-	-0-	180,916
Technology	3,096,321	-0-	-0-	3,096,321
Mutual and exchange traded funds (ETF):				
Equity				
Large	21,316,382	-0-	-0-	21,316,382
Small/mid	38,593,854	-0-	-0-	38,593,854
Fixed Income				
Intermediate	5,708,468	-0-	-0-	5,708,468
Other	4,402,971	-0-	-0-	4,402,971
ETF				
Large	4,115,133	-0-	-0-	4,115,133
Intermediate	2,276,084	-0-	-0-	2,276,084
Other investments	-0-	92,841	-0-	92,841
Funds held in trust by others	-0-	-0-	2,329,611	2,329,611
Total investments and funds held in trust by others at fair value	$ 84,795,146	$ 760,008	$ 2,329,611	87,884,765
Alternative investments*				68,441,397
Other				2,876,659
Cash				1,255,246
Total investments and funds held in trust by others				$ 160,458,067
Liabilities at fair value:				
Annuities payable	$ -0-	$ 2,006,461	$ -0-	$ 2,006,461
Trust obligations	-0-	328,308	-0-	328,308
Total liabilities at fair value	$ -0-	$ 2,334,769	$ -0-	$ 2,334,769

*Certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The carrying amounts presented in the above tables are intended to permit reconciliation of the fair value to the line items presented in the statement of financial position.

The Seminary's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during the years ended June 30, 2019 and 2018.

Changes in Level 3 assets and liabilities during the years ended June 30:

	2019	2018
Beginning balance	$ 2,329,611	$ 2,290,566
Purchases and issuances	-0-	-0-
Investment return/(loss), net	(58,727)	39,045
Total	$ 2,270,884	$ 2,329,611

Distributions from each of the proprietary funds will be received as the underlying investment of the limited partnership is realized. It is estimated that the underlying assets of the limited partnerships will be realized over the next 1 – 10 years. It is probable that all of the investments in limited partnerships will be sold at an amount different from the net asset value listed due to market and credit risk associated with these investments at the time of disposition.

The following tables summarize alternative investments stated at NAV by investment category, strategy and redemption frequency:

Alternative investment category, redemption frequency	Funds	2019	2018	Unfunded Commitments
Hedge funds:				
Hedge fund, annually (1)	4	$ 12,579,019	$ 12,247,226	1,932,692
Hedge fund, quarterly (1)	1	1,311,725	3,874,492	3,190,705
Hedge fund, monthly (1)	2	3,927,570	3,954,988	-0-
Commingled equity funds (6)	3	10,713,249	11,824,229	3,876,150
Proprietary funds:				
Private equity fund, non-redeemable (2)	13	18,685,100	12,098,819	5,657,158
Real estate fund, non-redeemable (3)	11	22,175,971	18,085,475	4,947,695
Timberland fund, non-redeemable (4)	1	911,137	1,697,083	-0-
Venture capital fund of funds, non-redeemable (5)	2	6,743,951	4,659,085	1,645,215
	37	$ 77,047,722	$ 68,441,397	$ 21,249,615

(1) This category includes investment in multiple funds. Funds invest in publicly traded equity securities issued by non-U.S. companies. Other funds are feeder funds which invest in a master fund. The master funds employ 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. While others 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.

(2) 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.

(3) 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.

(4) 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.

(5) This category includes a venture capital fund of funds which invests primarily in U.S. venture and growth capital funds.

(6) This category includes funds which invest in multiple equity investments to benefit from a economy of scale.

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, 2019, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position The carrying amount reported on the statement of financial position for the Seminary's notes payable approximate fair value based on the borrowing rates that are currently available to the Seminary.

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, 2019 and 2018, included in investments above was $149,311,990 and $147,303,296, respectively.

The Seminary holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

5. FUNDS HELD IN TRUSTS BY OTHERS

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

	2019	2018
Life income trusts held by others:		
Francis Gillespie Trust	$ -0-	$ 44,974
Residual interest in trusts held by others:		
Newman and Lena Harris Theological Memorial Fund	259,622	258,871
Beeson Memorial Scholarship Fund	579,784	583,551
Sallie Maude Jones Fund	278,482	279,533
Viola B. McEwen Trust	1,029,518	1,036,770
The Howard and Zeta Orchard Charitable Trust	123,478	125,912
Total	$ 2,270,884	$ 2,329,611

6. PROPERTY, PLANT AND EQUIPMENT, NET

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

	2019	2018
Land	$ 7,624,847	$ 7,624,847
Buildings	93,132,347	92,716,638
Furniture, fixtures, and equipment	24,306,626	23,905,379
Library books	10,944,790	10,676,894
	136,008,610	134,923,758
Accumulated depreciation	(50,855,495)	(47,640,174)
Property, plant, and equipment, net	$ 85,153,115	$ 87,283,584

Depreciation expense for the years ended June 30, 2019 and 2018 was $3,222,521 and $3,702,834, respectively.

7. LINE OF CREDIT

The Seminary has available an unsecured on demand line of credit with a bank which provides for borrowings up to $7,000,000. The purpose of the line of credit is to provide cash flow for operations. Interest is payable monthly at an optional rate as requested by the Seminary of either LIBOR plus 1.70% or the bank's base rate as further defined in the line of credit agreement. Any outstanding borrowing are due upon demand. No amounts were outstanding at June 30, 2019 and 2018.

8.CAPITAL LEASE OBLIGATION

In August 2013, the Seminary entered into an agreement to finance the purchase of computer equipment and a new enterprise resource planning (ERP) system to be implemented in stages over a 12 to 24-month period under a capital lease that expired in fiscal year 2019 at which time the Seminary retained title to the ERP system. The liability for amounts received at the completion of the project that represent the present value of future minimum lease payments totaled $160,475 as of June 30, 2018. The related assets totaling approximately $2,107,000, were placed in service in 2015, have been included in furniture, fixtures, and equipment and are being amortized over their estimated useful life. Accumulated amortization at June 30, 2018 was approximately $810,000. Amortization of the leased equipment is included in depreciation expense.

9.NOTES PAYABLE

Notes payable consists of the following:

	2019	2018
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.	$ -0-	$ 5,291,934
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.	-0-	771,949
Note payable - bank, payable in monthly installments of $40,403 including interest at a rate of 3.25% through December 31, 2031 with a final payment of $41,044 due January 1, 2032	5,001,430	-0-
	5,001,430	6,063,883
Less current portion	(326,697)	(6,063,883)
Total	$ 4,674,733	$ -0-

The above notes are secured by substantially all real property and improvements thereon of the Seminary with a net book value of approximately $72,789,000 and $74,175,000 at June 30, 2019 and 2018, respectively, and an assignment of leases and rents covering real property of the Seminary.

10. 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, 2019 and 2018, amount to $5,853,560 and $6,831,872, respectively. Total assets recorded under life income agreements at June 30, 2019 and 2018 amount to $458,506 and $437,520, 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 $2,039,272 and $2,006,461, at June 30, 2019 and 2018, respectively. Trust obligations under life income agreements total $381,103 and $328,308, at June 30, 2019 and 2018, 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.

11. RETIREMENT PLAN

All regular employees are eligible for participation in a fully funded defined contribution retirement plan (the Plan) that operates under Section 403(b) of the Internal Revenue Code (IRC). Employees are eligible upon hire to defer a portion of their compensation into the Plan. An employee becomes eligible for employer contributions after completing two years of service, defined by the Plan as the first calendar year corresponding with or commencing on the anniversary date of his or her date of hire during which the employee works a minimum of 1,000 hours. The Seminary will contribute 3% of the participant's compensation to the Plan with no match from the participant required or the Seminary contributes 5% of the participant's compensation to the Plan with a mandatory 2% match required by the participant after completing two years of service. 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 plan were $550,827 and $475,543 for the years ended June 30, 2019 and 2018, respectively.

12. 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 2016, 2017 and 2018 are subject to examination by the IRS, generally for three years after they are filed.

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, 2019 and 2018, 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.

13. NET ASSETS

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30:

	2019	2018
Subject to expenditure for specified purpose:		
Unspent endowment fund gains and term endowments restricted for:		
Financial aid	$ 15,843,591	$ 17,121,441
Operations	20,120,005	18,925,101
Academic chairs	4,944,251	5,411,598
Capital projects	247,309	243,388
Other purpose restrictions:		
Financial aid	12,732,587	13,440,660
Operations	7,595,531	5,676,113
Academic chairs	37,174	300,518
Capital projects	721,150	653,296
Life income funds	-	44,976
	62,241,598	61,817,091
Subject to the passage of time:		
Gifts	2,425,750	2,751,503
Subject to restriction in perpetuity:		
Endowment funds restricted in perpetuity:		
Financial aid	56,186,813	54,124,604
Operations	32,615,223	30,752,661
Academic chairs	19,221,367	20,967,882
Capital projects	500,000	500,000
Other funds perpetual in nature:		
Student loans	1,439,673	1,444,701
Annuity funds	690,086	751,094
Life income funds	379,988	411,639
Trust funds	2,270,885	2,284,637
	113,304,035	111,237,218
Total net assets with donor restrictions	$ 177,971,383	$ 175,805,812

The Board of Trustees at the Seminary has several standing board policies or approved board resolutions that affect the presentation of board-designated net assets. Net assets without donor restriction including board-designated net assets consist of the following as of June 30:

	2019	2018
Net assets without donor restrictions:		
Undesignated	$ 2,647,870	$ 474,614
Board-designated		
Capital reserves	2,026,685	1,658,910
Quasi-endowment	761,452	243,954
Annuity and life income	2,993,984	3,643,502
Net investment in plant and equipment	80,166,740	81,061,730
Total	$ 88,596,731	$ 87,082,710

The Seminary has buildings on two campuses with approximately 729,000 square feet of space. Fourteen of those buildings with 385,000 in square footage range in age from 20 to 70 years. The minimal future capital renewal funds needed to maintain these buildings in excellent condition is estimated at $12,000,000. As a result, the Board of Trustees established a capital reserve fund with a goal to continuously resource these reserves with sufficient dollars to ensure that the Seminary's buildings are maintained with excellence for the long-term. As of June 30, 2019, the capital reserve funds has grown to $2,026,685. A total of $1,800,000 in deferred maintenance projects is scheduled for elimination over the next five years.

A modest quasi-endowment has been established for use by the board of trustees to designate for long-term investment of special gifts or operating surpluses.

14. LIQUIDITY AND FUNDS AVAILABLE

Due primarily to the availability of approximately $7,100,000 in endowment funds appropriated to support operations and approximately $4,000,000 million in purpose restricted gifts available for release to support operations, the Seminary has significant flexibility to ensure that liquid financial assets are available to support its operations. In addition, at June 30, 2019, the Seminary's $18,534,405 in cash and cash equivalents were available for use. Additionally, $15,486,518 of this cash was considered in excess of daily cash requirements and invested in a short-term investment account and is included as cash and cash equivalents. Finally, the Seminary secured a line of credit amounting to $7,000,000 that provides another source for liquidity, if ever needed. The Seminary has never had the need to draw on this line of credit.

These liquid financial assets provide the flexibility to provide cash in between the two primary months of the year (September and February) when students make payments on their tuition and housing bills. For the year ending June 30, 2019, students were billed a total amount of $10,089,114.

The following table reflects the Seminary's financial assets as of the June 30, 2019 and 2018 adjusted to demonstrate how those financial assets and other liquidity resources are sufficient to support the Seminary's operating budget for the period July 1, 2019 through June 30, 2020 (fiscal 2020) which approximates $27,100,000.

	2019	2018
Financial assets:		
Cash and cash equivalents	$ 18,534,405	$ 13,410,453
Accrued income receivable	92,580	55,608
Student accounts receivable	2,747,612	2,361,276
Contributions receivable due for payment in next fiscal year	2,948,758	2,810,523
Funds functioning as endowment available for operations	761,452	243,954
Purpose restricted gifts previously received and available to support operations	3,943,780	3,867,435
Endowment payout for the next fiscal year approved by the Board of Trustees	7,128,872	7,467,949
Financial assets available in one year	36,157,459	30,217,198
Bank line of credit (no current amounts outstanding)	7,000,000	7,000,000
Total financial assets and other liquidity resources	$ 43,157,459	$ 37,217,198

In addition, the fiscal year 2020 operating budget includes approximately $16,200,000 in unrestricted donation income, net tuition and fees, auxiliary income and other income expected to be generated and not included in the liquidity resources listed above.

15. ENDOWMENTS

The Seminary's 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 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 donor restricted net assets the historic dollar value of assets held as donor restricted endowment, including any subsequent gifts and any accumulations to donor restricted endowments made in accordance with the direction of the applicable gift instruments.

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 restrictions. Donor-restricted endowments are classified as net assets with donor restriction and board designated endowments are classified as net assets without donor restrictions consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Fund Act ("UPMIFA").

The Seminary has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measure required under the law. Additionally, 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.

Underwater Endowment Funds

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. During the current and prior years, there were no deficiencies of this nature.

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.

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 years ended June 30, 2019 and 2018, the Seminary approved a spending policy which ranged from 5.0% to 6.5% 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% to 6.25% 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 4.0% to 5.0% 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, 2019 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 761,452	$ -0-	$ 761,452
Donor designated endowment funds			
Original donor-restricted gift amounts held in perpetuity	-0-	108,523,403	108,523,403
Accumulated investment gains	-0-	41,155,156	41,155,156
Total endowment funds	$ 761,452	$ 149,678,559	$ 150,440,011

Changes in endowment net assets for the year ended June 30, 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 243,954	$ 148,046,675	$ 148,290,629
Private gift and grants	517,498	1,882,478	2,399,976
Investment return, net	-0-	7,179,666	7,179,666
Appropriation of endowment assets for operations	-0-	(7,430,260)	(7,430,260)
Endowment net assets, end of year	$ 761,452	$ 149,678,559	$ 150,440,011

Composition of endowment net assets at June 30, 2018 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 243,954	$ -0-	$ 243,954
Donor designated endowment funds			
Original donor-restricted gift amounts held in perpetuity	-0-	106,345,147	106,345,147
Accumulated investment gains	-0-	41,701,528	41,701,528
Total endowment funds	$ 243,954	$ 148,046,675	$ 148,290,629

Changes in endowment net assets for the year ending June 30, 2018 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 221,038	$ 146,021,312	$ 146,242,350
Private gift and grants	-0-	971,707	971,707
Investment return, net	13,108	10,691,895	10,705,003
Appropriation of endowment assets for operations	-0-	(9,638,239)	(9,638,239)
Distribution from board-designated endowment pursant to policy	9,808	-0-	9,808
Endowment net assets, end of year	$ 243,954	$ 148,046,675	$ 148,290,629

16. FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Seminary. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and occupancy, which are both allocated based on square footage, as well as salary and benefits, which are allocated based on estimates of time and effort.

Expenses, summarized by functional classifications for the year ended June 30, 2019, are as follows:

	Program Services					Supporting Services		
	Instructional	Academic	Student Services	Public Service	Auxiliary Enterprises	Management & General	Fundraising	Total Expenses
Salaries & wages	$ 6,923,259	$ 1,328,645	$ 1,829,955	$ 12,348	$ 828,641	$ 1,901,034	$ 825,994	$ 13,649,876
Pension plan	$ 281,533	$ 52,350	$ 60,280	$ -	$ 26,270	$ 88,916	$ 41,479	$ 550,827
Other benefits	$ 680,140	$ 177,850	$ 232,365	$ -	$ 132,032	$ 397,496	$ 94,337	$ 1,714,220
Payroll taxes	$ 454,311	$ 84,839	$ 109,806	$ -	$ 48,694	$ 115,825	$ 53,566	$ 867,041
Legal	$ 18,027	$ -	$ -	$ -	$ -	$ 47,788	$ -	$ 65,815
Accounting	$ -	$ -	$ -	$ -	$ -	$ 72,908	$ -	$ 72,908
Advertising & promotion	$ 14,606	$ 872	$ 3,360	$ -	$ 5,070	$ 253,066	$ 90	$ 277,064
Office expenses	$ 2,707,283	$ 838,874	$ 370,571	$ 20,906	$ 874,431	$ 780,179	$ 359,005	$ 5,951,249
Royalties	$ 119,079	$ -	$ -	$ -	$ -	$ -	$ -	$ 119,079
Occupancy	$ 146,315	$ 73,551	$ 56,921	$ -	$ 708,077	$ 76,083	$ -	$ 1,060,947
Travel	$ 319,214	$ 45,631	$ 109,161	$ 1,171	$ 1,407	$ 87,972	$ 115,693	$ 680,249
Interest	$ -	$ -	$ -	$ -	$ -	$ 221,530	$ -	$ 221,530
Depreciation	$ 564,102	$ 308,259	$ 238,561	$ -	$ 1,792,726	$ 318,873	$ -	$ 3,222,521
Insurance	$ 450	$ -	$ -	$ -	$ -	$ 268,586	$ 855	$ 269,891
Other expenses	$ 384,257	$ 40,426	$ 16,247	$ -	$ 16,459	$ 23,588	$ 143,453	$ 624,430
Total expenses by function	$ 12,612,576	$ 2,951,297	$ 3,027,226	$ 34,425	$ 4,433,807	$ 4,653,844	$ 1,634,472	$ 29,347,647

Expenses, summarized by functional classifications for the year ended June 30, 2018, are as follows:

	Program Services					Supporting Services		
	Instructional	Academic	Student Services	Public Service	Auxiliary Enterprises	Management & General	Fundraising	Total Expenses
Salaries & wages	$ 7,427,397	$ 1,318,777	$ 1,673,115	18,193	831,339	2,168,065	839,137	$ 14,276,023
Pension plan	224,402	46,747	52,021	-0-	22,690	89,955	39,728	475,543
Other benefits	622,932	160,248	182,756	-0-	108,721	418,101	91,790	1,584,548
Payroll taxes	331,281	83,413	104,987	101	49,257	131,975	52,586	753,600
Legal	780	-0-	-0-	-0-	-0-	19,046	-0-	19,826
Accounting	-0-	-0-	-0-	-0-	-0-	60,992	-0-	60,992
Advertising & promotion	11,830	2,171	10,929	-0-	5,200	262,110	2,942	295,182
Office expenses	2,021,520	407,113	321,156	40,321	739,840	884,952	426,948	4,841,850
Information technology	-0-	-0-	-0-	-0-	-0-	484,238	-0-	484,238
Royalties	89,743	-0-	-0-	-0-	-0-	-0-	-0-	89,743
Occupancy	159,714	74,494	58,079	-0-	727,973	77,059	-0-	1,097,319
Travel	327,388	33,277	107,296	2,607	1,653	107,324	139,177	718,722
Interest	-0-	-0-	-0-	-0-	-0-	244,703	-0-	244,703
Depreciation	815,948	311,560	241,115	-0-	2,011,923	322,288	-0-	3,702,834
Insurance	450	-0-	452	-0-	-0-	246,764	856	248,522
Other expenses	280,500	12,498	4,125	-0-	2,327	38,630	117,179	455,259
Total expenses by function	$ 12,313,885	$ 2,450,298	$ 2,756,031	$ 61,222	$ 4,500,923	$ 5,556,202	$ 1,710,343	$ 29,348,904

17. 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, 2019 and 2018 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, 2019 and 2018, the Seminary's cash balances exceeded FDIC insurance coverage by approximately $17,700,000 and $1,300,000, respectively.

The Seminary has significant investments in common stocks, mutual funds, exchange traded funds, and alternative investments 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, 2019 and 2018, the carrying amount of accounts receivable that are past due ninety days or more totals approximately $19,692 and $3,700, respectively.

SUPPLEMENTAL SCHEDULE

ASBURY THEOLOGICAL SEMINARY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

Federal Grantor / Program Title

MAJOR PROGRAM

Student Financial Assistance - Cluster

	Federal CFDA Number	Federal Expenditures
U.S. Department of Education:		
Federal Direct Student Loans	84.268	$ 7,407,108
Federal Work-Study Program	84.033	139,985
Federal Perkins Loan Program	84.038	41,606
Total Student Financial Assistance - Cluster		$ 7,588,699
Total Major Program		$ 7,588,699
Total Expenditures of Federal Awards		$ 7,588,699

See report of independent auditors and accompanying notes to the schedule.

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the Asbury Theological Seminary (the Seminary).

The grant revenue amounts received and expensed are subject to audit and adjustment. If any expenditure is disallowed by the grantor as a result of such an audit, any claim for reimbursement to the grantor would become a liability of the Seminary. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations. The Seminary did not elect to use the 10% de minimis indirect cost rate and no amounts were provided to subrecipients.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

3. FEDERAL DIRECT STUDENT LOANS

For the year ended June 30, 2019, the Seminary processed loans of $7,407,108 (net of loan and origination fees) of new loans under the Federal Direct Student Loans Program (Catalog of Federal Domestic Assistance (CFDA) No. 84.268) which includes unsubsidized and Plus loans for Graduate Students). The Seminary is responsible only for the performance of certain administrative duties with respect to the Federal Direct Student Loan Program. Accordingly, it is not practical to determine the balance of loans outstanding to students and former students of the Seminary under the program at June 30, 2019.

4. FEDERAL WORK-STUDY PROGRAM

The Seminary administers a Federal Work-Study Program (CFDA No. 84.033) funded by the United States Department of Education. Total program disbursements under the program for the year ended June 30, 2019 follows:

	Institution Amount	Federal Amount	Total
Earned compensation	$ 43,745	$ 131,236	$ 174,981
Administrative cost allowance	-0-	8,749	8,749
	$ 43,745	$ 139,985	$ 183,730

5. FEDERAL PERKINS LOAN PROGRAM

The Seminary administered a Federal Perkins Loan Program (CFDA No. 84.038) funded by the United States Department of Education. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures present in the schedule of expenditures of federal awards. Total loan disbursements under the program for the year ended June 30, 2019, was $0. The Seminary liquidated the Federal Perkins Loan Program with the final liquidation being confirmed by the Department of Education on February 6, 2019. There were no loan balances outstanding at June 30, 2019. The federal share of the Seminary's final fund capital distribution from the Perkins Program was $926,070 and was refunded to the department on October 19, 2018.

CPAs / ADVISORS

blue

Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 *fax* 859.253.1384 *email* blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Asbury Theological Seminary
Wilmore, Kentucky

We have audited, in accordance with the 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, the financial statements of Asbury Theological Seminary (the Seminary), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Seminary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Seminary’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Seminary’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Seminary’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Seminary's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Seminary's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
October 31, 2019

CPAs / ADVISORS

blue

Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 *fax* 859.253.1384 *email* blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Asbury Theological Seminary
Wilmore, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Asbury Theological Seminary's (the Seminary) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Seminary's major federal programs for the year ended June 30, 2019. The Seminary's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Seminary's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Seminary's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Seminary's compliance.

Opinion on Each Major Federal Program

In our opinion, the Seminary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying schedule of findings and questioned costs as Finding No. 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

The Seminary's response to the noncompliance finding identified in our audit is described in the accompanying schedule of finding and questioned costs. The Seminary's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Seminary is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Seminary's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Seminary's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exists that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001, that we considered to be a significant deficiency.

The Seminary's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Seminary's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Lexington, Kentucky
October 31, 2019

ASBURY THEOLOGICAL SEMINARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified opinion

Internal control over financial reporting:

Material weakness(es) identified?	______ yes	__X__ none reported
Significant deficiency(s) identified that are not considered to be material weaknesses?	______ yes	__X__ none reported
Noncompliance material to financial statements noted?	______ yes	__X__ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	______ yes	__X__ none reported
Significant deficiency(s) identified that are not considered to be material weaknesses?	__X__ yes	______ none reported

Type of auditor's report issued on compliance for major programs: unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	__X__ yes	______ no

Identification of major program:

The program tested as a major federal program for the year ended June 30, 2019, is the United States Department of Education, Student Financial Assistance Cluster of Programs. Individual programs which are included in the Student Financial Assistance Cluster include the following:

CFDA Number	Name of Federal Program or Cluster
84.268	Federal Direct Student Loans
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee: ___X___ yes _______ no

Section II - Findings - Financial Statement Audit

Our audit disclosed no findings that are required to be communicated under *Government Auditing Standards* for the year ended June 30, 2019.

Section III - Findings and Questioned Costs - Major Federal Awards Program Audit

Finding No. 2019-001: Financial Aid Administration – Noncompliance and Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.033 – Federal Work Study Program (FWS)

Criteria: 34 CFR Section 675.18(g)(4) states that an institution must use at least seven percent of the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities. In meeting this requirement, the institution must include at least one FWS program fund recipient who serves as a reading tutor for children who are preschool age or are in elementary school or who participates in a family literacy activity.

Condition: During the year, the Seminary did not have meet the seven percent requirement specified in, 34 CFR Section 675.18(g)(4).

Cause: The Seminary experienced a decrease in the amount of work-study applications from which to select to fill open positions. Based on communication with students, the amount of pay was the primary issue. The Seminary also used a local daycare, adjacent to the campus, as one of their community service resources. The daycare closed unexpectedly, giving the Seminary limited time to establish a new relationship to specifically fulfill the family literacy component of the FWS program.

Although a new relationship was established in a timely manner, the lack of interest from students resulted in a lack of positions filled.

Effect: In accordance with 34 CFR Section 668.84, the Secretary of Education may levy fines and/or penalties on the institution or suspend future participation in federal student financial assistance programs for failure to comply with the requirements applicable to Title IV of the Higher Education Act of 1965 (HEA).

Recommendation: Ensure that the Seminary has enough community service opportunities that when one community service program either declines or shuts down that the Seminary will have enough to meet the required 7%. The Seminary should consider requesting a waiver.

SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2019

No findings or questioned costs were reported for the year ended June 30, 2018.

Department of Education

Asbury Theological Seminary respectfully submits the following corrective action plan for the year ended June 30, 2019

Name and address of independent public accounting firm:

Blue & Company, LLC
250 West Main Street, Suite 2900
Lexington, Kentucky 40507

The finding from the schedule of findings and questioned costs for the year ended June 30, 2019 is discussed below. The finding is number consistently with the numbers assigned in the schedule.

2019-001 Finding
Asbury Theological Seminary (ATS) underspent the Federal Work-Study (FWS) allocation for community service during the 2018-2019 year.

Summary
ATS currently has an agreement with three organizations to employ FWS students in a community service capacity to fulfill the 7% requirement for FWS funds.

During the 2018-2019 year, ATS experienced a decrease of student employment applications. Feedback from students on the lack of interested applicants and turnover rate for FWS positions came down to the amount of pay being offered. ATS addressed this issue by implementing a pay increase from $7.25 per hour to $9.00 per hour beginning July 1st, 2019.

Up until May 17, 2018, ATS used the Wilmore Daycare Center as the reading program to fulfill the literacy requirement of the community service requirement. The Daycare closed abruptly on the aforementioned date, leaving the institution a short amount of time to find a replacement for the 2018 -2019 year.

ATS signed a new agreement with the Jessamine County Public Library (JCPL) on July 11, 2018 to partner together for the financial literacy component of the community service requirement. JCPL hired their first student on September 17, 2018 and the student worked through November 9, 2018. Although the position continued to be advertised, no applications were received to hire a replacement.

Institution Response
ATS agrees with the audit finding. To avoid underspending the 7% allocation in the future, ATS has implemented a pay increase to encourage students to serve in the areas supported under FWS. If ATS deems that complying with the 7% requirement will cause hardship for the students during either the current or future years, a community service waiver request will be submitted before the deadline dates established for the specific year. Jenny Burkhart, Director of Financial Aid, will be responsible for this task if deemed necessary.