

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Financial and Compliance Report
July 31, 2021

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

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RSM US LLP

Independent Auditor's Report

Board of Trustees
Southeastern Baptist Theological Seminary, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and Subsidiary (the Seminary), which comprise the consolidated statements of financial position as of July 31, 2021 and 2020, the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Baptist Theological Seminary, Inc. and Subsidiary as of July 31, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying financial responsibility ratio schedule 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 audits 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 December 2, 2021, 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, grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Seminary's 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.

RSM US LLP

Raleigh, North Carolina
December 2, 2021

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Consolidated Statements of Financial Position
July 31, 2021 and 2020**

	2021	2020
Assets		
Cash	\$ 19,634,258	\$ 21,501,361
Accounts and notes receivable, less allowance for doubtful accounts (2021 – \$272,032; 2020 – \$257,205)	930,021	740,260
Prepaid expenses and other assets	1,179,984	1,505,760
Investments	40,765,714	33,071,545
Property and equipment, net	35,298,685	35,291,420
Beneficial interests in split-interest agreements	7,357,190	6,950,574
	<u>7,357,190</u>	<u>6,950,574</u>
Total assets	\$ 105,165,852	\$ 99,060,920
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other accrued expenses	\$ 1,589,361	\$ 1,628,313
Student deposits	823,132	762,891
Deferred revenue	792,402	935,014
Postretirement benefit liability	12,332,032	11,875,802
Bonds payable, net of unamortized debt issuance costs	-	3,255,918
Loan payable	3,509,900	3,509,900
	<u>3,509,900</u>	<u>3,509,900</u>
Total liabilities	19,046,827	21,967,838
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions	35,735,133	34,749,496
Net assets with donor restrictions	50,383,892	42,343,586
	<u>50,383,892</u>	<u>42,343,586</u>
Total net assets	86,119,025	77,093,082
	<u>86,119,025</u>	<u>77,093,082</u>
Total liabilities and net assets	\$ 105,165,852	\$ 99,060,920
	<u>\$ 105,165,852</u>	<u>\$ 99,060,920</u>

See notes to consolidated financial statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Consolidated Statements of Activities
Years Ended July 31, 2021 and 2020**

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Gross tuition and fees, net of institutional grants (2021 - \$2,017,294; 2020 -\$2,493,331)	\$ 14,424,028	\$ -	\$ 14,424,028
Sales and services of auxiliary enterprises	5,116,174	-	5,116,174
SBC Cooperative Program	7,300,014	-	7,300,014
Private gifts and bequests	1,917,556	2,131,162	4,048,718
Investment return designated for current operations	253,696	1,149,304	1,403,000
Distributions received from beneficial interests in split-interest agreements	-	141,907	141,907
Other income	158,884	1,568	160,452
Net assets released from program restrictions	3,089,753	(3,089,753)	-
Total revenues, gains and other support	32,260,105	334,188	32,594,293
Expenses:			
Educational and general:			
Instruction	13,784,478	-	13,784,478
Administrative and general	10,057,789	-	10,057,789
Operation and maintenance of plant	3,164,557	-	3,164,557
Total educational and general	27,006,824	-	27,006,824
Auxiliary enterprises	5,676,331	-	5,676,331
Total expenses	32,683,155	-	32,683,155
Change in net assets from operations	(423,050)	334,188	(88,862)
Other changes:			
Private gifts and bequests	-	1,421,901	1,421,901
Investment return in excess of (less than) amounts designated for current operations	1,276,521	6,071,302	7,347,823
Gifts of beneficial interests in split-interest agreements	-	-	-
Change in value of beneficial interests in split-interest agreements	-	406,616	406,616
Gain from insurance claims	-	-	-
Net assets released from restrictions	193,701	(193,701)	-
Changes in postretirement benefit liability other than service costs	(61,535)	-	(61,535)
Change in net assets	985,637	8,040,306	9,025,943
Net assets:			
Beginning	34,749,496	42,343,586	77,093,082
Ending	\$ 35,735,133	\$ 50,383,892	\$ 86,119,025

See notes to consolidated financial statements.

2020		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 14,858,077	\$ -	\$ 14,858,077
5,187,235	-	5,187,235
7,492,794	-	7,492,794
1,103,048	1,812,423	2,915,471
257,758	1,131,242	1,389,000
-	104,529	104,529
378,636	50,240	428,876
3,160,929	(3,160,929)	-
<u>32,438,477</u>	<u>(62,495)</u>	<u>32,375,982</u>
13,262,519	-	13,262,519
9,981,856	-	9,981,856
3,175,109	-	3,175,109
<u>26,419,484</u>		<u>26,419,484</u>
5,427,648	-	5,427,648
<u>31,847,132</u>	<u>-</u>	<u>31,847,132</u>
591,345	(62,495)	528,850
-	1,200,989	1,200,989
(65,880)	2,850,890	2,785,010
-	19,885	19,885
-	880,935	880,935
1,388,014	-	1,388,014
594,608	(594,608)	-
(2,027,479)	-	(2,027,479)
<u>480,608</u>	<u>4,295,596</u>	<u>4,776,204</u>
34,268,888	38,047,990	72,316,878
<u>\$ 34,749,496</u>	<u>\$ 42,343,586</u>	<u>\$ 77,093,082</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended July 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 9,025,943	\$ 4,776,204
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	2,070,888	1,962,353
Change in value of beneficial interests in split-interest agreements	(406,616)	(880,935)
Gift of beneficial interests in split-interest agreements	-	(19,885)
Bad debt expense	14,343	27,308
Realized and unrealized gains on investments	(8,239,848)	(3,660,182)
Contributions restricted for long-term purposes	(678,439)	(508,394)
Contributions restricted for property and equipment	(743,464)	(692,595)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts and notes receivable	(204,104)	(123,141)
Prepaid expenses and other assets	325,776	(742,646)
Increase (decrease) in:		
Accounts payable and other accrued expenses	(38,952)	(195,758)
Student deposits	60,241	77,064
Deferred revenue	(142,612)	(152,022)
Postretirement benefit liability	456,230	2,487,777
Net cash provided by operating activities	1,499,386	2,355,148
Cash flows from investing activities:		
Proceeds from sale of investments	21,148,025	33,403,472
Purchase of investments	(20,602,346)	(32,889,340)
Purchases of property and equipment	(2,032,411)	(2,023,650)
Net cash used in investing activities	(1,486,732)	(1,509,518)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Long-term purposes	678,439	508,394
Property and equipment	743,464	692,595
Other financing activities:		
Proceeds from loan payable	-	3,509,900
Payments on bonds payable	(3,301,660)	(637,332)
Net cash (used in) provided by financing activities	(1,879,757)	4,073,557

(Continued)

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)
Years Ended July 31, 2021 and 2020

	2021	2020
Net (decrease) increase in cash	\$ (1,867,103)	\$ 4,919,187
Cash:		
Beginning	<u>21,501,361</u>	16,582,174
Ending	<u><u>\$ 19,634,258</u></u>	<u>\$ 21,501,361</u>
Supplemental disclosure of cash flow information:		
Cash payments for interest and bond fees	<u><u>\$ 41,173</u></u>	<u>\$ 99,108</u>

See notes to consolidated financial statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Consolidated Statement of Functional Expenses
Year Ended July 31, 2021**

	Instruction	Administrative and General	Operation and Maintenance of Plant	Auxiliary Enterprises	Total Supporting Services	Total
Academic salaries	\$ 5,821,423	\$ -	\$ -	\$ -	\$ -	\$ 5,821,423
Staff salaries	3,979,239	4,451,887	1,380,929	745,026	6,577,842	10,557,081
Benefits	1,908,984	1,560,190	346,861	203,047	2,110,098	4,019,082
Utilities, alterations and repairs	51,908	478,853	1,053,473	885,211	2,417,537	2,469,445
Insurance	-	662,686	-	-	662,686	662,686
Employee development and travel	124,522	370,965	-	-	370,965	495,487
Supplies and services	1,488,310	2,298,877	311,586	2,492,898	5,103,361	6,591,671
Depreciation	410,092	234,331	66,235	1,314,449	1,615,015	2,025,107
Interest	-	-	5,473	35,700	41,173	41,173
Total	\$ 13,784,478	\$ 10,057,789	\$ 3,164,557	\$ 5,676,331	\$ 18,898,677	\$ 32,683,155

See notes to consolidated financial statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Consolidated Statement of Functional Expenses
Year Ended July 31, 2020**

	Instruction	Administrative and General	Operation and Maintenance of Plant	Auxiliary Enterprises	Total Supporting Services	Total
Academic salaries	\$ 5,507,016	\$ 35,593	\$ -	\$ -	\$ 35,593	\$ 5,542,609
Staff salaries	4,297,583	4,831,487	1,422,805	806,528	7,060,820	11,358,403
Benefits	1,953,696	1,703,373	393,526	169,762	2,266,661	4,220,357
Utilities, alterations and repairs	107,426	185,377	994,443	786,555	1,966,375	2,073,801
Insurance	-	545,086	-	-	545,086	545,086
Employee development and travel	142,605	440,237	-	163	440,400	583,005
Supplies and services	858,693	2,014,710	287,924	2,316,149	4,618,783	5,477,476
Depreciation	395,500	225,993	63,879	1,267,678	1,557,550	1,953,050
Interest	-	-	12,532	80,813	93,345	93,345
Total	\$ 13,262,519	\$ 9,981,856	\$ 3,175,109	\$ 5,427,648	\$ 18,584,613	\$ 31,847,132

See notes to consolidated financial statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Southeastern Baptist Theological Seminary, Inc. and Subsidiary (the Seminary) prepares men and women by means of academic studies and practical preparation for leadership roles in Baptist churches and in other Christian ministries. The Seminary is an institution of higher learning established and supported through the Cooperative Program by the Southern Baptist Convention (SBC). It is governed by the Board of Trustees (Board) who are elected by the SBC.

A summary of the Seminary's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of Southeastern Baptist Theological Seminary, Inc. and its wholly owned subsidiary, Southeastern Baptist Theological Seminary Foundation, Inc. (the Foundation). The Foundation had no financial transactions during either fiscal year and carries no assets or liabilities at July 31, 2021 and 2020. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation: In preparing its consolidated financial statements, the Seminary's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Seminary and changes therein are classified and reported as follows:

Net assets with donor restrictions: Net assets that carry donor stipulated restrictions regarding use or are time restricted. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term (i.e., endowed funds), with such endowment fund balances being made available for expenditure through spending rate policies adopted by the Seminary. See Note 13 for further information on the Seminary's endowments.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board or may otherwise be limited by contractual agreements with outside parties, such as governmental grant agreements. Expenses are reported as decreases to net assets without donor restrictions.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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, gains and other support and expenses during the reporting period. Actual results could differ from those estimates.

Cash: The Seminary maintains deposits with certain financial institutions in amounts that are at times in excess of federal insurance limits. Cash designated or restricted for long-term purposes is included with investments.

Accounts and notes receivable: Student accounts receivable are carried at the original invoice amounts, less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Notes receivable are carried at the original note amount, plus any accrued interest, less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines these allowances for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Student accounts receivable and notes receivable are written off when deemed uncollectible. Recoveries of student accounts receivable and notes receivable previously written off are recorded when received.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

A student accounts receivable is considered past due if any portion of the receivable balance is outstanding beyond the published deadline. Interest is not charged on student accounts receivable. Monthly late fees are assessed at 3% of the outstanding balance capped at \$25. A note receivable is considered past due if the note balance and unpaid interest is outstanding past the note maturity date.

Valuation of investments: Investments are reported at fair value based upon measurements described in Note 6 determined at the financial statement date. Donated investments are initially recorded at fair value at the date of gift. Unless specifically directed by the donor, endowment contributions received by the Seminary are pooled and investments are then purchased with the funds available. In the case of certain less marketable investments, fair value is established by using the net asset value (NAV) of each investment fund as provided by the investment fund manager.

Debt issuance costs: Costs incurred in issuing outstanding bonds payable are deferred and amortized to income over the term of the bonds using a method that approximates the effective interest method. Unamortized debt issuance costs are presented as a deduction to the bonds payable on the consolidated statements of financial position.

Long-lived assets: Cash or other assets whose purpose is to acquire long-lived assets are recorded as net assets without donor restrictions if the Seminary has internally designated such assets or as net assets with donor restrictions if such assets represent gifts received with donor-imposed restrictions. Once acquired and placed into service, all long-lived assets, primarily property and equipment, are considered net assets without donor restrictions.

Property and equipment: Property and equipment is stated at cost, less accumulated depreciation. Under the Seminary's capitalization policy, any expenditure for buildings less than \$10,000, land improvements less than \$5,000, equipment less than \$5,000, furniture less than \$1,000, and computer equipment less than \$500, are expensed as incurred. The cost of maintenance and repairs are charged to expenses as incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	40-50
Buildings	40 (plus actual life prior to 1993)
Equipment	5-10

Property and equipment is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Seminary evaluates, on an ongoing basis, the carrying value of property and equipment based on estimated future undiscounted cash flows. In the event such cash flows are not expected to be sufficient to recover the carrying value of the assets, the assets are written down to their estimated fair value.

Postretirement benefits: The Seminary provides certain postretirement benefits, including healthcare benefits, for all retired employees that meet certain eligibility requirements. The Seminary follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 715 to account for the costs of those benefits. Under that Topic, the Seminary recognizes the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability, respectively, in the consolidated statements of financial position.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Tuition and fees: Tuition and fees revenue is reported in the fiscal year in which educational programs are primarily conducted. Scholarships and fellowships awarded to students for tuition, fees and room and board are based upon need and merit.

Deferred revenue: Deferred revenue represents the tuition and fees revenue billed and received for the upcoming school year.

Operating and non-operating activities: The consolidated statements of activities report the change in net assets from operating and non-operating activities. Operating activities consist of all the activities of the Seminary except for certain items specifically considered to be non-operating activities. Non-operating activities include donor-restricted endowed private gifts and bequests; gifts restricted for the acquisition of capital assets; investment income on donor-restricted funds not available to support current operations; change in value of split-interest agreements; releases of donor-restricted funds for capital acquisitions placed into service; and significant items of an unusual or non-recurring nature.

Functional allocation of expenses: Expenses are primarily reported in the consolidated statements of activities in categories recommended by the National Association of College and University Business Officers. The Seminary's primary program service is instruction. Expenses reported as administrative and general, operation and maintenance of plant and auxiliary enterprises are incurred in support of the primary program service.

The consolidated statement of functional expenses reports certain natural expense classifications that are attributable to one or more functional expense categories. Depreciation of property and equipment, interest expense and maintenance and certain other expenses are allocated to program and supporting activities based on periodic inventories of facilities. Costs of certain other expenses were allocated based on estimates of time and effort.

Fundraising expenses: Fundraising expenses totaled approximately \$705,000 and \$765,000 for the years ended July 31, 2021 and 2020, respectively.

Contributions and beneficial interests: Contributions and beneficial interests received, including those from the SBC Cooperative Program, are recognized as revenues at their fair values when they become unconditional. Contributions of cash and other assets are recorded as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions are reported as net assets without donor restrictions when the donor-imposed restrictions are satisfied in the same reporting period as the receipt of the contribution. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Gifts of land, buildings and equipment are reported as contributions without donor restrictions unless explicit donor stipulations specify how the donated assets must be used or disposed. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as contributions with donor restrictions. Absent explicit donor stipulations about how those long-lived assets must be maintained, the Seminary reports expirations of donor restrictions as net assets without donor restrictions when the donated assets are received or when acquired or constructed assets, funded by donor contributions, are placed into service.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Income taxes: The Seminary is exempt from federal and state income taxes. The federal exemption is under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Management evaluated the Seminary's tax positions and concluded that the Seminary had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of the Income Taxes Topic of the FASB ASC.

Subsequent events: The Seminary has evaluated its subsequent events (events occurring after July 31, 2021) through December 2, 2021, which represents the date the consolidated financial statements were available to be issued.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09. The amendments in this Update create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts*, and create new Subtopic 340-40, *Other Assets and Deferred Costs – Contracts with Customers*. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which provides a limited deferral of the effective dates to provide immediate, near-term relief as a result of the Coronavirus Disease 2019 (COVID-19) pandemic, which is adversely affecting the global economy and causing significant and widespread business and capital market disruptions. The Seminary adopted the provisions of ASU 2014-09 in fiscal year 2021. The adoption of this ASU did not materially impact the Seminary's financial statements, however, additional disclosures were required as a result of the adoption of this Standard.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an additional transition method under which an entry would initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The Seminary has deferred the adoption of Topic 842 for an additional year based on the provisions of ASU 2020-05, resulting in an effective date for Topic 842 in fiscal year 2023. Management is currently evaluating the impact the pending adoption of the new standard will have on its consolidated financial statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Liquidity and Availability of Financial Assets

The following table reflects the Seminary's financial assets as of July 31, 2021 and 2020, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. The approved appropriated amount from endowment funds for the following year is considered to be available for expenditure. Board designated amounts could be drawn upon Board action.

	2021	2020
Financial assets:		
Cash	\$ 19,634,258	\$ 21,501,361
Accounts and notes receivable, net	930,021	740,260
Investments	40,765,714	33,071,545
Beneficial interests in split-interest agreements	7,357,190	6,950,574
Financial assets, at year-end	<u>68,687,183</u>	<u>62,263,740</u>
Less those unavailable for general expenditure within one year, due to:		
Beneficial interests in split-interest agreements	(7,357,190)	(6,950,574)
Perpetual and term endowments and accumulated earnings*	(34,492,311)	(22,859,513)
Board designated endowments*	(6,267,409)	(5,052,672)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 20,570,273</u>	<u>\$ 27,400,981</u>

* Excludes amounts that have been appropriated for the upcoming fiscal year.

The Seminary has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To achieve this, the Seminary monitors its liquidity on a monthly basis. As discussed in Note 9, the Seminary has a \$1,500,000 line of credit available to meet immediate liquidity needs, with no amounts drawn on the line as of July 31, 2021 or 2020.

Note 3. Investments

Investments at July 31, 2021 and 2020, consist of the following:

	2021	2020
Short-term cash investments	\$ 3,092,640	\$ 2,877,080
Privately held common stock	-	4,795,998
Equities	9,684,592	7,620,482
Mutual funds and exchange-traded funds	6,909,594	6,800,490
Alternative investments	21,078,888	10,977,495
	<u>\$ 40,765,714</u>	<u>\$ 33,071,545</u>

The Seminary invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, any significant changes in risks in the near term could materially affect the Seminary's investment balance reported in the consolidated statements of financial position.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Investments (Continued)

The following schedules summarize the investment return and its classification in the consolidated statements of activities for the years ended July 31, 2021 and 2020:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest, net of expenses	\$ 63,049	\$ 447,926	\$ 510,975
Net realized and unrealized gains	1,467,168	6,772,680	8,239,848
Total return on investments	1,530,217	7,220,606	8,750,823
Investment return designated for current operations	253,696	1,149,304	1,403,000
Investment return in excess of amounts designated for current operations	\$ 1,276,521	\$ 6,071,302	\$ 7,347,823
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest, net of expenses	\$ 59,030	\$ 454,798	\$ 513,828
Net realized and unrealized gains	132,848	3,527,334	3,660,182
Total return on investments	191,878	3,982,132	4,174,010
Investment return designated for current operations	257,758	1,131,242	1,389,000
Investment return in excess of (less than) amounts designated for current operations	\$ (65,880)	\$ 2,850,890	\$ 2,785,010

The total investment return designated for current operations is the draw that the Seminary takes from its endowment in accordance with its approved endowment spending policy as disclosed in Note 13.

Investment expenses for the years ended July 31, 2021 and 2020, were \$231,199 and \$225,798, respectively.

Note 4. Property and Equipment

Property and equipment at July 31, 2021 and 2020, consisted of the following:

	2021	2020
Land	\$ 1,674,247	\$ 1,674,247
Land improvements	2,463,216	2,378,671
Buildings	56,266,758	54,794,411
Equipment	12,641,005	12,360,853
Construction in progress	616,755	498,628
	73,661,981	71,706,810
Less accumulated depreciation	38,363,296	36,415,390
	\$ 35,298,685	\$ 35,291,420

Depreciation expense of property and equipment amounted to \$2,025,107 and \$1,953,050 for the years ended July 31, 2021 and 2020, respectively.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Beneficial Interests in Split-Interest Agreements

The North Carolina Baptist Foundation administers certain deferred trust assets held for the benefit of the Seminary. These trust assets are restricted to provide that all trust income accrues to the donor for life after which all earnings have been designated to benefit the Seminary. Such assets are not recorded on the Seminary's books because either the trust is revocable or the donor maintains the right to change beneficiaries. The North Carolina Baptist Foundation and several others also administer certain perpetual trusts for the benefit of the Seminary and distribute the earnings from such trusts annually to the Seminary. The assets in these perpetual trusts are recorded by the Seminary as beneficial interests in split-interest agreements.

Note 6. Fair Value Measurements

ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The fair value hierarchy is as follows:

- Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2:** Inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, discount values, volatilities, prepayment spreads, credit risks, etc.) or inputs that are derived principally from or corroborated by market data correlation or other means.
- Level 3:** Unobservable inputs for determining the fair values of assets or liabilities that would reflect an entity's own determination about the assumptions that market participants would use in pricing the assets or liabilities.

In determining fair value, the Seminary uses various valuation approaches within the ASC 820 fair value measurement framework. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy:

Investments

Short-term cash investments: Cash equivalents and money market funds traded in active markets are classified within Level 1 of the valuation hierarchy. Cash equivalents and money market funds traded in inactive markets are classified within Level 2 of the valuation hierarchy.

Equities and mutual funds: Equity securities and mutual funds listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy. The Seminary also holds shares of stock in a privately held company, which are valued by comparing Earnings Before Interest, Taxes, Depreciation and Amortization multiples and actual transactions of the stock. These shares are classified within Level 3 of the valuation hierarchy.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

Exchange-traded funds: Investments in exchange-traded funds are investment funds that hold assets, such as stocks, commodities and bonds, that are traded on stock exchanges. These funds are valued at the same price as the underlying assets. Such securities are classified within Level 1 of the valuation hierarchy.

Beneficial interests in split-interest agreements: The Seminary has been named as a beneficiary in split-interest agreements for which the Seminary is not the trustee. The fair value was determined primarily based on the fair value of the assets held in trusts as provided by the trustees. Under the guidelines set forth in the FASB ASC 820 fair value hierarchy, the trust assets are classified as Level 3 inputs.

The following tables summarize financial assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of July 31, 2021 and 2020:

	2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Short-term cash investments	\$ 3,042,141	\$ 50,499	\$ -	\$ 3,092,640
Equities:				
Global equity	3,732,622	-	-	3,732,622
U.S. small cap	2,338,516	-	-	2,338,516
Developed markets	3,613,454	-	-	3,613,454
Total equities	9,684,592	-	-	9,684,592
Mutual funds and exchange-traded funds:				
Domestic bond funds	4,082,779	-	-	4,082,779
Commodity funds	686,562	-	-	686,562
Domestic stock funds	2,140,253	-	-	2,140,253
Total mutual funds and exchange-traded funds	6,909,594	-	-	6,909,594
Alternative investments*	-	-	-	21,078,888
Total investments	19,636,327	50,499	-	40,765,714
Beneficial interests in split-interest agreements	-	-	7,357,190	7,357,190
Total financial assets	\$ 19,636,327	\$ 50,499	\$ 7,357,190	\$ 48,122,904

* In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

	2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Short-term cash investments	\$ 2,822,568	\$ 54,512	\$ -	\$ 2,877,080
Privately held common stock	-	-	4,795,998	4,795,998
Equities:				
Global equity	3,040,909	-	-	3,040,909
U.S. small cap	2,163,536	-	-	2,163,536
Developed markets	2,416,037	-	-	2,416,037
Total equities	7,620,482	-	-	7,620,482
Mutual funds and exchange-traded funds:				
Domestic bond funds	4,174,330	-	-	4,174,330
Domestic stock funds	2,626,160	-	-	2,626,160
Total mutual funds and exchange-traded funds	6,800,490	-	-	6,800,490
Alternative investments*	-	-	-	10,977,495
Total investments	17,243,540	54,512	4,795,998	33,071,545
Beneficial interests in split-interest agreements				
	-	-	6,950,574	6,950,574
Total financial assets	\$ 17,243,540	\$ 54,512	\$ 11,746,572	\$ 40,022,119

* In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

The following table reconciles the beginning and ending balances of financial assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended July 31, 2021 and 2020:

	Privately Held Common Stock	Beneficial in Split-Interest Agreements
Ending balance, July 31, 2019	\$ 1,853,800	\$ 6,049,754
Distributions from split-interest agreements	-	(104,529)
Gifts of beneficial interest in split-interest agreements	-	19,885
Change in value before distributions	2,942,198	985,464
Ending balance, July 31, 2020	4,795,998	6,950,574
Distributions from split-interest agreements	-	(141,907)
Gifts of beneficial interest in split-interest agreements	-	-
Cash received on sale	(4,949,641)	-
Dividend income	733,046	-
Change in value before distributions	(579,403)	548,523
Ending balance, July 31, 2021	\$ -	\$ 7,357,190

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

Any unrealized gains (losses) on the privately held common stock are included in the investment return in excess of (less than) amounts designated for current operations.

The following table sets forth a summary of the Seminary's investments with a reported NAV or equivalent:

Investment	July 31, 2021	July 31, 2020	July 31, 2021 Unfunded Commitment	July 31, 2020 Unfunded Commitment	Redemption Frequency and Notice Period	Other Redemption Restrictions
Alternative investments:						
Undiscovered Value Fund, Ltd. (a)	\$ 6,234,512	\$ 4,068,764	\$ -	\$ -	Not predetermined, 30-day notice is required	12-month lock-up period
Courage-Credit Opps IV, L.P. (b)	3,140,683	2,967,834	-	-	N/A	Distributions made as underlying investments mature
Private Advisors - Real Assets Fund II. (c)	3,587,020	2,386,985	1,166,515	1,415,163	N/A	Distributions made as underlying investments mature
Ceres Farms, LLC (d)	3,775,060	1,553,912	-	-	N/A	12-month lock-up period; followed by annual liquidity
Kiltearn Global Equity SRI Fund (e)	3,483,180	-	-	-	Monthly, 6-day notice is required	Redemption may be delayed up to 30 days
Callis Capital Impact Real Estate Fund (f)	858,433	-	1,135,468	-	N/A	Distributions made as underlying investments mature
Total	<u>\$ 21,078,888</u>	<u>\$ 10,977,495</u>	<u>\$ 2,301,983</u>	<u>\$ 1,415,163</u>		

(a) Seeks long-term capital appreciation while investing in various stocks, corporate bonds, convertible bonds, warrants and other equity-based securities.

(b) Seeks to achieve investment returns by investing in stressed and distressed investments in troubled companies.

(c) Seeks to achieve investment returns by investing in private equity funds focused on natural resources excluding real estate.

(d) Seeks to achieve investment returns through the acquisition and management of farmland in the Midwestern United States.

(e) Seeks to achieve investment returns through investing in a diversified portfolio of global equity securities.

(f) Seeks to achieve investment returns through investments in real estate assets.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Retirement Plan

Permanent employees of the Seminary who normally work at least half time are participants in a defined contribution plan, which is administered by Guidestone Financial Resources of the SBC. The Seminary contributes 10% of each eligible participant's compensation to the plan and will match an employee's contribution up to 5%. Retirement fund investments are self-directed by the plan participants and the Seminary has no further funding obligation once the contribution has been made. The Seminary's contribution to the plan for the years ended July 31, 2021 and 2020, was \$1,123,051 and \$1,107,520, respectively.

During 2013, the Seminary established a nonqualified deferred compensation plan for the benefit of the President of the Seminary. The primary purpose of the plan is to provide additional compensation to the President upon termination of employment with the Seminary. The Seminary does not match employee contributions to the plan and has recorded no asset or liability on the consolidated statements of financial position. Contributions to the plan are held by a third-party trustee, Guidestone Financial Resources.

Note 8. Postretirement Benefits

The Seminary sponsors a postretirement benefit plan for all employees that meet the eligibility requirements. The plan provides healthcare and life insurance benefits and is noncontributory and unfunded.

Net periodic postretirement benefit costs recognized as expenses included the following components for the years ended July 31, 2021 and 2020:

	2021	2020
Service cost-benefits attributable to service during the year	\$ 429,112	\$ 460,298
Interest on accumulated postretirement benefit obligation	323,622	273,869
Loss to extent recognized	4,814	3,257
	<u>\$ 757,548</u>	<u>\$ 737,424</u>

The accumulated postretirement benefit obligation recognized on the accompanying consolidated statements of financial position includes the following components and activity as of and for the years ended July 31, 2021 and 2020:

	2021	2020
Benefit obligation at beginning of year	\$ 11,875,802	\$ 9,388,025
Service cost-benefits attributable to service during the year	429,112	460,298
Interest on accumulated postretirement benefit obligation	323,622	273,869
Benefits paid by the Seminary	(342,728)	(297,758)
Actuarial (gain) loss	(621,293)	1,681,741
Effect of change in economic assumptions	1,722,938	24,461
Effect of change in discount rate assumption	(16,479)	(578,770)
Effect of change in mortality, withdrawal and trend assumptions	(1,038,942)	923,936
Benefit obligation at end of year	<u>\$ 12,332,032</u>	<u>\$ 11,875,802</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 8. Postretirement Benefits (Continued)

Accumulated postretirement benefit obligation included the following component that has not yet been recognized as a component of net periodic postretirement benefit costs at July 31, 2021 and 2020, but which has been reflected as a reduction to net assets without donor restrictions, apart from expenses, on the accompanying consolidated statements of activities for the years ended July 31, 2021 and 2020:

	2021	2020
Net experience losses	\$ 1,280,383	\$ 1,218,848

None of the net experience losses included in accumulated postretirement benefit obligation at July 31, 2021, that have not yet been recognized as components of net periodic postretirement benefit costs, are expected to be recognized as components of periodic postretirement benefit costs in 2022.

For measurement purposes, a 7.30% weighted average annual rate of increase in per capita medical and prescription drug costs of covered benefits was assumed for 2021 with such annual rate of increase gradually declining to 4.90% by 2029. If assumed healthcare cost trend rates were increased by one percentage point in each year, the accumulated postretirement benefit obligation at July 31, 2021 and 2020, would be increased by approximately \$1,727,000 (14.00%) and \$1,674,000 (14.10%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2021 and 2020, would be increased by approximately \$151,000 (20.11%) and \$123,000 (16.78%), respectively.

If assumed healthcare cost trend rates were decreased by one percentage point in each year, the accumulated postretirement benefit obligation at July 31, 2021 and 2020, would be decreased by approximately \$1,384,000 (11.22%) and \$1,337,000 (11.25%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2021 and 2020, would be decreased by approximately \$116,000 (15.40%) and \$96,000 (13.12%), respectively.

The weighted average discount rate used in estimating the benefit obligation and net periodic benefit cost at July 31, 2021 and 2020, was 2.59% and 2.27%, respectively.

The benefits expected to be paid by the Seminary in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter at July 31, 2021 are as follows:

	Amount
Years ending July 31:	
2022	\$ 535,652
2023	549,547
2025	548,030
2025	555,953
2026	579,832
2027-2031	3,244,741
	\$ 6,013,755

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 9. Line of Credit

At July 31, 2021 and 2020, the Seminary has an unsecured line of credit with a bank with available borrowings up to \$1,500,000. Borrowings under the line of credit are at the London Interbank Offered Rate (LIBOR), plus 1.85%, not to decrease below a minimum rate of 3% and require monthly interest payments. The line of credit interest rate was modified in February 2020 to be LIBOR, plus 1.50%. There were no outstanding borrowings under the line of credit agreement during the years ended July 31, 2021 and 2020. The outstanding balance and all accrued but unpaid interest will be due on February 12, 2023. The loan agreement associated with the line of credit contains various financial covenants, which are typical of such agreements.

Note 10. Bonds Payable and Bank Held Term Loan

On July 2, 2013, the Seminary entered into a Bond Purchase and Loan Agreement, whereby the Public Finance Authority (the Public Authority) issued on behalf of the Seminary a \$7,500,000 aggregate principal amount of the Public Authority's Educational Facilities Revenue Refunding Bond, Series 2013 (the 2013 Bonds). The 2013 Bonds were then purchased from the Public Authority by the same bank which provides the line of credit, with the proceeds loaned to the Seminary by the Public Authority through a promissory note, which was assigned to the bank without recourse. In connection with these transactions, the Seminary entered into a guarantee agreement with the bank to guarantee payment of all obligations from the 2013 Bonds. The 2013 Bonds are subject to optional redemption, in whole or part, in the event the Seminary elects to prepay the term loan. Prepayment is allowed provided advance notice is provided by the Seminary. The 2013 Bonds are also subject to mandatory redemption within 45 days of the occurrence of any event, which has the effect of causing interest paid or payable on the 2013 Bonds to become taxable. The proceeds from the term loan were designated to be used to refinance previously outstanding debt, to pay certain issuance costs and to finance the acquisition and installation of a new energy-efficient boiler system. The boiler project was completed as of July 2015 and the remaining funds were released for unrestricted expenses.

Interest on the term loan accrues at a variable rate equal to the sum of 70% of the one-month LIBOR (0.15% at July 31, 2020), plus 1.25%, with monthly principal and interest payments beginning August 1, 2013. The loan matures on March 1, 2025. The term loan contains certain restrictive covenants, including a minimum liquidity and net assets without donor restrictions requirement, as well as a debt service coverage ratio requirement and certain reporting requirements. The loan is collateralized by a deed of trust to real property and assigned rents and leases of assigned property.

During the year ended July 31, 2021, the bonds were paid in full, and remaining debt issuance costs were amortized. Bonds payable at July 31, 2020 consisted of a principal on the bonds payable of \$3,301,660 less \$45,742 of unamortized debt issuance costs.

Total interest expense for the years ended July 31, 2021 and 2020, was \$41,173 and \$93,345, respectively.

During 2013, the Seminary capitalized \$111,641 of debt issuance costs related to the issuance of the 2013 Bonds. Amortization expense recognized during 2021 and 2020 was approximately \$46,000 and \$9,000, respectively.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 11. Net Assets

Net assets without donor restrictions and with donor restrictions consist of the following as of July 31, 2021 and 2020:

	2021	2020
Net assets without donor restrictions:		
Undesignated	\$ (6,130,836)	\$ (2,599,207)
Board designated endowment	6,567,284	5,313,201
Net investment in property, plant and equipment	35,298,685	32,035,502
Total net assets without donor restrictions	<u>35,735,133</u>	<u>34,749,496</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Scholarships	6,058,932	8,217,798
Project renovations	2,745,880	2,118,531
Faculty	3,643,812	1,235,078
Institutional support	1,571,799	1,061,150
Lectures and awards	371,131	233,116
Library	183,997	91,947
Other	1,531,945	1,404,006
Accumulated gains	(8,889,190)	(2,971,531)
	<u>7,218,306</u>	<u>11,390,095</u>
Subject to spending policy and appropriation:		
Accumulated gains	8,889,190	2,971,531
Endowment funds restricted in perpetuity	26,919,206	21,031,386
	<u>35,808,396</u>	<u>24,002,917</u>
Subject to restriction in perpetuity:		
Beneficial interests in split-interest agreements	7,357,190	6,950,574
	<u>7,357,190</u>	<u>6,950,574</u>
Total net assets with donor restrictions	<u>50,383,892</u>	<u>42,343,586</u>
Total net assets	<u>\$ 86,119,025</u>	<u>\$ 77,093,082</u>

Note 12. Net Assets Released From Donor Restrictions

Net assets during the years ended July 31, 2021 and 2020, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows:

	2021	2020
Purpose restrictions accomplished:		
Scholarships	\$ 1,300,231	\$ 1,486,599
Faculty	618,042	525,149
Institutional support	755,724	657,692
Project renovations	193,701	594,608
Library	17,948	25,797
Lectures and awards	19,594	29,971
Other	378,214	435,721
	<u>\$ 3,283,454</u>	<u>\$ 3,755,537</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 13. Endowment Funds

The Seminary's endowment funds consist of over 300 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Funds functioning as endowments are Seminary resources designated as endowments by the Board and are invested in the endowment for long-term appreciation and current income. Such assets, however, remain available and may be spent at the Board's discretion unless donor-imposed restrictions exist on their use. Funds functioning as endowments are recorded in net assets without donor restrictions, unless donor restrictions exist in which case they are recorded in net assets with donor restrictions.

The Seminary follows the provisions of FASB ASC 958-205-50 subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) (NCUPMIFA), and Enhanced Disclosures for all Endowment Funds. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Seminary considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor of the gift instrument. In accordance with NCUPMIFA, the Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the Seminary and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and appreciation of investments
- Other resources of the Seminary
- The investment policy of the Seminary

The Seminary's Board has a standing Audit and Investment Committee comprised of six trustees. The Committee is charged with the oversight of the Seminary's investments and operates under a Board-approved Investment Policy Statement. The Statement defines the parameters within which investments may be made. The overall investment objective, as defined in the document, is to preserve, over time, the principal value of the assets as measured in real, inflation adjusted terms. The absolute goal is an annual real rate of return of 8%. Asset allocation ranges, benchmark indices, risk tolerances and rebalancing procedures are specified within the Investment Policy Statement.

The Board's current endowment spending policy is to distribute an amount equal to 5% of a rolling three-year average of the endowment investments. This spending policy is consistent with the average long-term return expectation, intended to provide support of donors' intent and additional growth of the endowment funds.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 13. Endowment Funds (Continued)

The Seminary's Board authorizes endowment expenditures at the time it approves the annual fiscal year's operating budget based upon the endowment earnings available at that time, consistent with the Seminary's endowment spending policy. The actual expenditure of these appropriations occurs at various times during the fiscal year for which they are appropriated. From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donor or NCUPMIFA requires the Seminary to retain as a fund of perpetual duration. As of July 31, 2021, deficiencies of this nature exist in 5 donor-restricted endowment funds, which together have an original gift value of \$146,435, a current fair value of \$120,637, and a deficiency of \$25,798. As of July 31, 2020, deficiencies of this nature exist in 30 donor-restricted endowment funds, which together have an original gift value of \$3,312,793, a current fair value of \$3,192,881, and a deficiency of \$119,912. These deficiencies are generally due to unfavorable market fluctuations that occurred within the Seminary's investment portfolio. During the years ended July 31, 2021 and 2020, appropriations of \$6,402 and \$163,253, respectively, were made on funds with deficiencies.

The following table summarizes changes in endowment net assets for the years ended July 31, 2021 and 2020:

	Without Donor Restrictions	With Donor Restrictions			Total
		Original Gift Amount	Accumulated Earnings and Other	Total With Donor Restrictions	
Endowment net assets, July 31, 2019	\$ 5,396,691	\$ 20,522,992	\$ 3,255,996	\$ 23,778,988	\$ 29,175,679
Contributions	-	508,394	-	508,394	508,394
Interest, other investment income, net of expenses, realized and unrealized gains and other gains	174,268	-	846,777	846,777	1,021,045
Appropriations of endowment assets for expenditure	(257,758)	-	(1,131,242)	(1,131,242)	(1,389,000)
Endowment net assets, July 31, 2020	5,313,201	21,031,386	2,971,531	24,002,917	29,316,118
Contributions	-	5,887,820	-	5,887,820	5,887,820
Interest, other investment income, net of expenses, realized and unrealized gains and other gains	1,507,779	-	7,066,963	7,066,963	8,574,742
Appropriations of endowment assets for expenditure	(253,696)	-	(1,149,304)	(1,149,304)	(1,403,000)
Endowment net assets, July 31, 2021	\$ 6,567,284	\$ 26,919,206	\$ 8,889,190	\$ 35,808,396	\$ 42,375,680

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 13. Endowment Funds (Continued)

The following tables summarize the composition of endowment net assets by fund type as of July 31, 2021 and 2020:

	2021				
	Without Donor Restrictions	Original Gift Amount	With Donor Restrictions		Total
			Accumulated Earnings and Other	Total With Donor Restrictions	
Donor-restricted endowment funds	\$ -	\$ 26,919,206	\$ 8,889,190	\$ 35,808,396	\$ 35,808,396
Board-designated endowment funds	6,567,284	-	-	-	6,567,284
Total endowment net assets	<u>\$ 6,567,284</u>	<u>\$ 26,919,206</u>	<u>\$ 8,889,190</u>	<u>\$ 35,808,396</u>	<u>\$ 42,375,680</u>

	2020				
	Without Donor Restrictions	Original Gift Amount	With Donor Restrictions		Total
			Accumulated Earnings and Other	Total With Donor Restrictions	
Donor-restricted endowment funds	\$ -	\$ 21,031,386	\$ 2,971,531	\$ 24,002,917	\$ 24,002,917
Board-designated endowment funds	5,313,201	-	-	-	5,313,201
Total endowment net assets	<u>\$ 5,313,201</u>	<u>\$ 21,031,386</u>	<u>\$ 2,971,531</u>	<u>\$ 24,002,917</u>	<u>\$ 29,316,118</u>

Note 14. Lease Commitments

The Seminary has various operating leases primarily for student housing that expire in 2030. Total rental expense under cancelable and noncancelable operating leases as of July 31, 2021 and 2020 was \$1,709,243 and \$1,670,054, respectively.

At July 31, 2021, the future minimum lease payments under non-cancelable operating leases were as follows:

Years ending July 31:	
2022	\$ 1,670,054
2023	1,670,054
2024	1,670,054
2025	1,689,649
2026	1,787,620
Thereafter	6,852,545
	<u>\$ 15,339,976</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 15. Tuition and Sales and Services of Auxiliary Enterprises

Tuition revenue: Tuition and fees for instruction are substantially billed and collected prior to the end of each semester. Revenues are earned and recognized over the course of each semester as educational services are delivered. The portion of tuition revenue for summers terms that is earned subsequent to the years ended July 31, 2021 and 2020, is treated as deferred revenue.

Disaggregated information concerning tuition and fees revenue by type of student as of July 31, 2021 and 2020, is as follows:

	2021	2020
Undergraduate (net of institutional grants of \$472,620 in 2021 and \$698,134 in 2020)	\$ 4,723,333	\$ 4,558,775
Graduate (net of institutional grants of \$1,233,507 in 2021 and \$1,465,331 in 2020)	8,184,482	8,600,561
Doctoral (net of institutional grants of \$308,557 in 2021 and \$320,564 in 2020)	1,516,213	1,698,741
Total tuition and fees (net of institutional grants of \$2,014,684 in 2021 and \$2,484,029 in 2020)	<u>\$ 14,424,028</u>	<u>\$ 14,858,077</u>

Sales and services of auxiliary enterprises: The Seminary's sales and services of auxiliary enterprises consist primarily of goods and services related to campus activity, such as student housing, dining halls, retail food sales, and bookstore operations. Revenues and expense from auxiliary enterprises are reported as changes in net assets without donor restrictions.

Disaggregated information concerning sales and services of auxiliary enterprises by type of service is as follows:

	2021	2020
Student housing	\$ 4,480,545	\$ 4,554,266
Food service	422,076	422,887
Campus store	142,535	114,495
Rental income	25,992	41,351
Miscellaneous	45,026	54,236
Total sales and services of auxiliary enterprises	<u>\$ 5,116,174</u>	<u>\$ 5,187,235</u>

Note 16. COVID-19 and CARES Act

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical areas in which the Seminary operates. On March 27, 2020, the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 16. COVID-19 and CARES Act (Continued)

As part of the CARES Act, \$14 billion was provided to the Office of Postsecondary Education for the creation of the Higher Education Emergency Relief Fund (HEERF). HEERF provides funding to institutions for emergency financial aid grants to students as well as funding to support the costs of shifting classes online and other institutional costs incurred related to the pandemic.

Under the provisions of the CARES Act, no less than fifty percent of HEERF funds received by an institution must be used to provide emergency financial aid to students. The Seminary was awarded total funds of approximately \$2,724,125 in aid under provisions of the CARES Act. During the years ended July 31, 2021 and 2020, the Seminary expended approximately \$533,567 and \$174,000 of these funds, respectively.

In April 2020, the Seminary borrowed \$3,509,900 under the Payroll Protection Program (PPP). The note matures in 2022 with an interest rate of 1% per annum. Principal and interest payments must be paid every month beginning seven months from the date of initial disbursement. The PPP may be forgiven, in whole or part, provided that the forgiveness documentation complies with the PPP rules and regulations, including without limitation that not more than 25% of the PPP amount be used for non-payroll costs. The Seminary remains responsible under the PPP for any amounts not forgiven by the Small Business Administration. The Seminary is accounting for the PPP note as debt under ASC 470. The Seminary applied for full forgiveness of its loan on August 2021, however no assurances can be given regarding whether such application will be approved in part or full. The application was approved for forgiveness by the lender, and remains subject to review and approval by the SBA. Additional reviews and/or audits by the SBA of the application and supporting documentation may occur for a period of up to six years following initial approval of forgiveness by the SBA.

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Seminary.

Note 17. Contingencies

In accordance with the Asset Retirement and Environmental Obligations Topic of the FASB ASC (ASC 410-20), the Seminary has identified several facilities that have conditional asset retirement obligations related to asbestos abatement. The Seminary has not recorded a liability for certain of these conditional asset retirement obligations due to the Seminary being unable to reasonably estimate the fair value of the liability. For those obligations for which no liability has been recorded, the fair value of such a liability could not be reasonably estimated as the Seminary has no specified plans that would require abatement of the asbestos and, therefore, settlement dates for these conditional asset retirement obligations are not known, nor can they be reasonably estimated.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Financial Responsibility Ratio Supplemental Schedule
July 31, 2021**

Financial Statement & Financial Statement Line Item or Footnote Disclosure		Financial Statement Line Item Amount	Amount Used for Ratio
Primary Reserve Ratio			
Expendable Net Assets			
Consolidated Statements of Financial Position - Net assets without donor restrictions	Net assets without donor restrictions		\$ 35,735,133
Consolidated Statements of Financial Position - Net assets with donor restrictions	Net assets with donor restrictions		50,383,892
Note 11 to the Financial Statements - Subject to restriction in perpetuity; Beneficial interests in split-interest agreements and Endowment funds restricted in perpetuity	Net assets with donor restrictions; restricted in perpetuity		34,276,396
N/A	Annuities with donor restrictions		-
N/A	Term endowments with donor restrictions		-
N/A	Life income funds with donor restrictions		-
N/A	Secured and unsecured related party receivable	-	
N/A	Unsecured related party receivable		-
Consolidated Statements of Financial Position - Property and equipment, net	Property, plant and equipment, net, including construction in progress	35,298,685	
N/A	Property, plant and equipment; pre-implementation, leases grandfathered		34,681,930
Note 4 to the Financial Statements - Property and Equipment	Property, plant and equipment; post-implementation - with outstanding debt for acquisition		-
N/A	Property, plant and equipment; post-implementation - without outstanding debt for acquisition		-
Note 4 to the Financial Statements - Construction in progress	Construction in progress		616,755
N/A	Lease right of use assets, net	-	
N/A	Lease right of use assets; pre-implementation, leases are grandfathered		-
N/A	Lease right of use assets; post-implementation		-
N/A	Intangible assets		-
Consolidated Statements of Financial Position - Postretirement benefit liability	Post-employment and pension liabilities		12,332,032
N/A	Long-term debt; for long-term purposes	-	
N/A	Long-term debt; for long-term purposes pre-implementation, debt grandfathered		-
N/A	Long-term debt; for long-term purposes post-implementation		-
N/A	Line of credit for construction in progress		-
N/A	Right of use asset lease obligation		
N/A	Right of use asset lease obligation; pre-implementation, leases grandfathered	-	-
N/A	Right of use asset lease obligation; post-implementation	-	-
Total Expendable Net Assets			28,875,976

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Financial Responsibility Ratio Supplemental Schedule
July 31, 2021**

Total Expenses and Losses			
Consolidated Statements of Activities - Total expenses	Total expenses without donor restrictions		32,683,155
N/A	Investment loss, net investment return appropriated for spending	-	
N/A	Other components of net periodic pension costs	-	
N/A	Change in value of split interest agreements	-	
N/A	Other losses	-	
Consolidated Statements of Activities - Change in postretirement benefit liability other than net postretirement benefit costs	Pension-related changes other than net periodic pension costs	61,535	
	Non-operating and net investment loss		61,535
	Investment loss, net investment return appropriated for spending		-
	Pension-related changes other than net periodic costs		61,535
Total expenses and losses			32,683,155

Equity Ratio			
Modified Net Assets			
Consolidated Statements of Financial Position - Net assets without donor restrictions	Net assets without donor restrictions		35,735,133
Consolidated Statements of Financial Position - Net assets with donor restrictions	Net assets with donor restrictions		50,383,892
N/A	Intangible assets		-
N/A	Secured and unsecured related party receivable	-	
N/A	Unsecured related party receivable		-
Total modified net assets			86,119,025
Modified Assets			
Consolidated Statements of Financial Position - Total assets	Total assets		105,165,852
N/A	Lease right-of-use asset; pre-implementation, leases grandfathered		-
N/A	Lease right-of-use liability; pre-implementation, leases grandfathered		-
N/A	Intangible assets		-
N/A	Secured and unsecured related party receivable	-	
N/A	Unsecured related party receivable		-
Total modified assets			105,165,852

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Financial Responsibility Ratio Supplemental Schedule
July 31, 2021**

Net Income Ratio			
Change in Net Assets Without Donor Restrictions			
Consolidated Statements of Activities - Change in net assets	Change in net assets without donor restrictions; increase (decrease)		985,637
Total Revenue and Gains			
Consolidated Statements of Activities -Total revenues, gains and other support	Total revenue without donor restrictions, including net assets released from restrictions	32,006,409	
Consolidated Statements of Activities -Investment return designated for current operations	Net investment return appropriated for spending	253,696	
Consolidated Statements of Activities -Investment return in excess of (less than) amounts designated for current operations	Total net investment return, including investment return appropriated for spending	1,276,521	
N/A	Change in value of split-interest agreements	-	
Consolidated Statement of Activities - non operating, net assets released from restriction	Other gains	193,701	
N/A	Pension-related changes other than net periodic pension	-	
Total revenues and gains without donor restrictions			33,222,935

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Schedule of Expenditures of Federal Awards
Year Ended July 31, 2021**

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Federal Expenditures
Major programs:		
U.S. Department of Education:		
Direct programs:		
Student Financial Assistance Cluster:		
Federal Pell Grant Program	84.063	\$ 636,442
Total student financial assistance cluster		<u>636,442</u>
COVID-19 Education Stabilization Fund:		
HEERF Student Aid Portion	84.425E	165,124
HEERF Institutional Portion	84.425F	256,043
HEERF Fund for the Improvement of Postsecondary Education (FIPSE) Formula Grant	84.425N	<u>152,731</u>
Total COVID-19 Education Stabilization Fund		<u>573,898</u>
U.S. Department of Education:		
COVID-19 Coronavirus Relief Fund	21.019	
Pass-through from North Carolina Office of State Budget and Management		<u>18,480</u>
Total expenditures of federal programs		<u>\$ 1,228,820</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) include the federal grant activity of Southeastern Baptist Theological Seminary, Inc. and Subsidiary (the Seminary) under programs of the federal government for the year ended July 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Seminary, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Seminary.

There were no amounts paid to subrecipients for the year ended July 31, 2021.

Note 2. Summary of Significant Accounting Policies for Federal Award Expenditures

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Costs

The Seminary has not elected to use the 10% de minimus indirect cost rate as allowed under Uniform Guidance.

**Report 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***

Independent Auditor's Report

Board of Trustees
Southeastern Baptist Theological Seminary, Inc.

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 consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and Subsidiary (the Seminary), which comprise the consolidated statements of financial position as of July 31, 2021, the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 2, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Seminary's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 entity'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 consolidated 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 financial statements. 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Raleigh, North Carolina
December 2, 2021

Report on Compliance for each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

Board of Trustees
Southeastern Baptist Theological Seminary, Inc.

Report on Compliance for the Major Federal Programs

We have audited Southeastern Baptist Theological Seminary, Inc. and Subsidiary (the Seminary) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Seminary's major federal program for the year ended July 31, 2021. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Seminary's major federal program 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards, 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 programs 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 the Major Federal Programs

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 July 31, 2021.

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 items 2021-001 and 2021-002. Our opinion on each major federal program is not modified with respect to this matter.

The Seminary's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questions 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 University 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 University's internal control over compliance with the types of requirements that could have a direct and material effect on its 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 the 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 University'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 a 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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Seminary as of and for the year ended July 31, 2021, and have issued our report thereon dated December 2, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Purpose of This Report

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM VS LLP

Raleigh, North Carolina
February 15, 2022

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Schedule of Findings and Questioned Costs
Year Ended July 31, 2021**

Section I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?

 X Yes No

Identification of major federal programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.063	Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs

\$750,000

Auditee qualified as low-risk auditee?

 Yes X No

Section II. Financial Statement Findings

None Reported.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Schedule of Findings and Questioned Costs
Year Ended July 31, 2021**

Section III. Findings and Questioned Costs for Federal Awards

Audit Findings:

Other Matters - Compliance

**Item 2021-001: Gramm Leach Bliley Act documentation
U.S. Department of Education
Student Financial Aid Cluster**

Criteria or specific requirement: The Gramm-Leach-Bliley Act (Public Law 106-102) requires financial institutions to explain their information-sharing practices to their customers and to safeguard sensitive data. The Federal Trade Commission considers Title IV-eligible institutions that participate in Title IV Educational Assistance Programs as “financial institutions” and subject to the Gramm-Leach-Bliley Act (16 CFR313.3(k)(2)(vi)). Under an institution’s Program Participation Agreement with the Department of Education and the Gramm-Leach-Bliley Act, schools must protect student financial aid information, with particular attention to information provided to institutions by the Department of otherwise obtained in support of the administration of the federal student financial aid programs.

Condition: The Seminary does not have a policy in place documenting specific risks identified in relation to the Gramm-Leach-Bliley Act, or safeguards to address identified risk.

Cause: Lack of understanding of formal documentation required for (i) risks identified and (ii) safeguards to such risks.

Effect or potential effect: The Seminary is not in compliance with the requirement to follow the Gramm-Leach-Bliley Act.

Questioned costs: None

Context: The Seminary does not have sufficient documentation to evidence compliance with these requirements.

Repeat finding: No.

Recommendation: The Seminary should implement a policy to ensure it follows the Gramm-Leach-Bliley Act requirements.

Views of responsible official: The Seminary agrees with the finding - refer to the Seminary’s Corrective Action Plan.

**Item 2021-002: Enrollment Reporting
U.S. Department of Education
Student Financial Aid Cluster**

Criteria or specific requirement: The code of Federal Regulations at 34 CFR Sections 685.309 and 690.83(b)(2) state that institutions must complete and return within 30 days of receipt the SSCR (Student Status Confirmation Report). Unless a roster will be submitted within the next 60 days, the Seminary must notify the lender or guaranty agency within 30 days if it discovers that a student who has a loan either did not enroll or ceased to be enrolled on at least a half-time basis.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Schedule of Findings and Questioned Costs
Year Ended July 31, 2021**

Condition: The Seminary did not notify the National Student Data System (NSLDS) within the required 60-day window of a student's status change.

Cause: Administrative oversight in reporting status timely.

Effect or potential effect: Change in student's enrollment status was not reported timely and accurately.

Questioned costs: None. The reporting date did not affect program costs.

Context: Based on a sample of sixty students, nine students or 15% of the students selected were not reported to the NSLDS within the required window as being graduated.

Repeat finding: No.

Recommendation: We recommend that the Seminary implement adequate procedures to ensure that all status changes are reported in a timely and accurate manner for students who receive pell awards.

Views of responsible official: The Seminary agrees with the finding - refer to the Seminary's Corrective Action Plan.

**Corrective Action Plan
Year Ended July 31, 2021**

Identifying Number: 2021-001

Finding: The Gramm-Leach-Bliley Act (Public Law 106-102) requires financial institutions to explain their information-sharing practices to their customers and to safeguard sensitive data. The Federal Trade Commission considers Title IV-eligible institutions that participate in Title IV Educational Assistance Programs as “financial institutions” and subject to the Gramm-Leach-Bliley Act (16 CFR313.3(k)(2)(vi). Under an institution’s Program Participation Agreement with the Department of Education and the Gramm-Leach-Bliley Act, schools must protect student financial aid information, with particular attention to information provided to institutions by the Department or otherwise obtained in support of the administration of the federal student financial aid programs.

The Seminary does not have a policy in place documenting specific risks identified in relation to the Gramm-Leach-Bliley Act, or safeguards to address identified risks.

Anticipated Completion Date: July 31, 2022

Contact Person: Dave Phillips, Director of Student Resources & Financial Aid

Corrective Actions Taken or Planned: SEBTS staff met and reviewed a draft of policies and procedures that would fulfill the compliance requirement put forth in the Gramm-Leach-Bliley Act. The policies and procedures were subsequently finalized and implemented, which includes plans for training staff on securing student records. These policies and procedures, many of which were already in place, are currently being implemented in areas across campus where student records are stored.

Identifying Number: 2021-002

Finding: the code of Federal Regulations at 34 CFR Sections 685.309 and 690.83(b)(2) state that institutions must complete and return within 30 days of receipt the SSCR (Student Status Confirmation Report). Unless a roster will be submitted within the next 60 days, the Seminary must notify the lender or guaranty agency within 30 days if it discovers that a student who has a loan either did not enroll or ceased to be enrolled on at least a half-time basis..

The Seminary did not notify the National Student Data System (NSLDS) within the required 60-day window of a student’s status change.

Anticipated Completion Date: July 31, 2022

Contact Person: Dave Phillips, Director of Student Resources & Financial Aid

Corrective Actions Taken or Planned: SEBTS staff discovered that students who graduated with a missing grade were counted as *active* students in PowerCampus and therefore not reported as graduates to the NSLDS. SEBTS developed a new system for submitting a file that correctly labeled all graduates.