

SOUTHEASTERN BAPTIST
THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY

Consolidated Financial Statements
With Independent Auditors' Report
and
Federal Awards
In Accordance with the Uniform Guidance

Year Ended July 31, 2022

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Southeastern Baptist Theological Seminary, Inc. and Subsidiary
Wake Forest, North Carolina

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and Subsidiary (Seminary), which comprise the consolidated statements of financial position as of July 31, 2022, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated 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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of Southeastern Baptist Theological Seminary, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southeastern Baptist Theological Seminary, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

Board of Trustees
Southeastern Baptist Theological Seminary, Inc. and Subsidiary
Wake Forest, North Carolina

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements, continued

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Southeastern Baptist Theological Seminary, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southeastern Baptist Theological Seminary, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2022, on our consideration of Southeastern Baptist Theological Seminary, Inc. and Subsidiary'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 Southeastern Baptist Theological Seminary, Inc. and Subsidiary'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 Southeastern Baptist Theological Seminary, Inc. and Subsidiary's internal control over financial reporting and compliance.

Capin Crouse LLP

Lawrenceville, Georgia
December 16, 2022

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Consolidated Statement of Financial Position

July 31, 2022

ASSETS:

Cash and cash equivalents	\$ 23,768,601
Students accounts receivable–net	719,212
Prepaid expenses and other assets	1,302,924
Investments	39,280,289
Beneficial interest in trusts held by others	5,471,220
Property, plant, and equipment–net	<u>34,557,169</u>

Total Assets	<u><u>\$ 105,099,415</u></u>
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LIABILITIES AND NET ASSETS:

Liabilities:

Accounts payable	\$ 461,784
Accrued expenses and other liabilities	1,495,141
Deferred revenue	1,734,671
Post-retirement benefit obligation	11,768,935
Refundable advance	<u>3,509,900</u>

Total liabilities	<u>18,970,431</u>
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Net assets:

Without donor restrictions	<u>37,378,506</u>
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With donor restrictions:

Restricted by purpose or time	15,581,598
Restricted in perpetuity	<u>33,168,880</u>
	<u>48,750,478</u>

Total net assets	<u>86,128,984</u>
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Total Liabilities and Net Assets	<u><u>\$ 105,099,415</u></u>
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See notes to consolidated financial statements

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Consolidated Statement of Activities

Year Ended July 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT:			
Net tuition and fees	\$ 13,613,828	\$ -	\$ 13,613,828
Auxiliary enterprises	5,279,115	-	5,279,115
Denominational support	7,438,243	-	7,438,243
Private gifts and grants	1,221,309	4,681,693	5,903,002
Government grants and contracts	-	2,343,671	2,343,671
Investment return designated for operating activities	280,854	1,334,146	1,615,000
Other income	354,094	-	354,094
Net assets released from restrictions	6,152,443	(6,152,443)	-
Total Operating Revenues and Other Support	34,339,886	2,207,067	36,546,953
OPERATING EXPENSES:			
Instructional	13,364,471	-	13,364,471
Student services	2,198,123	-	2,198,123
Auxiliary enterprises	5,871,231	-	5,871,231
Institutional support	11,531,837	-	11,531,837
Total Operating Expenses	32,965,662	-	32,965,662
Change in Net Assets from Operating Activities	1,374,224		
NONOPERATING ACTIVITY:			
Investment return net of amount designated for current operations	(380,415)	(1,954,510)	(2,334,925)
Other components of net periodic post-retirement costs	(323,622)	-	(323,622)
Post-retirement related changes other than net periodic post retirement costs	973,186	-	973,186
Change in value of beneficial interest in trusts held by others	-	(1,885,971)	(1,885,971)
Total Nonoperating Activity	269,149	(3,840,481)	(3,571,332)
Change in Net Assets	1,643,373	(1,633,414)	9,959
Net Assets, Beginning of Year	35,735,133	50,383,892	86,119,025
Net Assets, End of Year	\$ 37,378,506	\$ 48,750,478	\$ 86,128,984

See notes to consolidated financial statements

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Consolidated Statement of Cash Flows

Year Ended July 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$	9,959
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation		2,058,855
Change in value of beneficial interest in trusts held by others		1,885,971
Contributions received for endowment		(778,454)
Net realized and unrealized loss on investments		959,688
Reinvested interest and dividends		(704,994)
Loss on disposal of property, plant, and equipment		20,137
Changes in operating assets and liabilities:		
Student accounts receivable		210,808
Prepaid expenses and other assets		(122,940)
Accounts payable		3,795
Accrued expenses and other liabilities		363,768
Deferred revenue		119,137
Post retirement benefit obligation		(563,097)
Net Cash Provided by Operating Activities		3,462,633

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales of investments		2,130,733
Purchases of investments		(900,000)
Purchases of property, plant, and equipment		(1,337,477)
Net Cash Used by Investing Activities		(106,744)

CASH FLOWS FROM FINANCING ACTIVITIES:

Contributions restricted for investment in endowments		778,454
Net Cash Provided by Financing Activities		778,454

Change in Cash and Cash Equivalents		4,134,343
Cash and Cash Equivalents, Beginning of Year		19,634,258
Cash, and Cash Equivalents, End of Year	\$	23,768,601

See notes to consolidated financial statements

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 31, 2022

1. NATURE OF ORGANIZATION:

Southeastern Baptist Theological Seminary, Inc. (the Seminary) was founded in 1950 and is an institution of higher learning established and supported through the Cooperative Program by the Southern Baptist Convention (SBC). The Seminary campus is located in Wake Forest, North Carolina. It is governed by the board of trustees (board) who are elected by the SBC. 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's main sources of revenue are tuition and fee income as well as contributions from the public.

The Seminary is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Seminary qualifies for charitable contribution deductions under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1). However, income from certain activities not directly related to the Seminary's tax-exempt purpose is subject to taxation as unrelated business income. The Seminary has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made on the financial statements regarding the *Income Tax* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Seminary does not have any outstanding interest or penalties, and none have been recorded in the consolidated statement of activities for the year ended July 31, 2022.

2. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies followed by the Seminary are described below to enhance the usefulness of the consolidated financial statements to the reader. The preparation of the consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 the fiscal year and carries no assets or liabilities at July 31, 2022. All significant intercompany accounts and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

Cash equivalents are defined as short-term, highly liquid debt securities that are both readily convertible to cash and have an original maturity of three months or less. The Seminary maintains cash and cash equivalents in financial institutions which may, at times, exceed federally insured limits. At July 31, 2022, the amounts in excess of federally insured limits was \$23,560,725. The Seminary has not experienced any losses on such accounts.

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

STUDENT ACCOUNTS 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. Management determines these allowances for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Student accounts receivable are written off when deemed uncollectible. Recoveries of student accounts receivable previously written off are recorded when received.

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.

INVESTMENTS

Investments in equity securities with readily determinable fair values and all debt securities are recorded at fair value. Other investments are recorded at cost. Interest and dividend income and the realized and unrealized gain or loss on investments is reported in the accompanying consolidated statement of activities. Donated investments are recorded at market value at the date of donation and thereafter carried in conformity with the stated policy.

Alternative investments have been stated at fair values based on the Seminary's share of net asset values derived from the values of the underlying investments as reported by the fund managers or general partners of the private limited partnerships. Management obtains and considers the most recent audited financial statements of such investments when evaluating the overall reasonableness of carrying value. Management believes this method provides a reasonable estimate of fair value. Due to the inherent uncertainty of valuation of investments in limited partnerships, the estimated values may differ significantly from the values that would have been used had a ready market for the limited partnerships existed.

BENEFICIAL INTEREST IN TRUSTS HELD BY OTHERS

Beneficial interest in trusts represent an irrevocable instrument, held by the North Carolina Baptist Foundation and several others, which names the Seminary as an irrevocable remaindermen. The value of the Seminary's interest in the agreements are reported as a beneficial interest in trusts held by others asset.

PROPERTY, PLANT, 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.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY, PLANT, AND EQUIPMENT, continued

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

	Years
Land improvements	40-50
Buildings	40 (plus actual life prior to 1993)
Furniture, fixtures, and equipment	5-10
Software	5

DEFERRED REVENUE

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

CLASSES OF NET ASSETS

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

Without donor restrictions are those which are free of donor-imposed restrictions and all revenues, expenses, gains, and losses that are not net assets with donor restrictions.

With donor restrictions are stipulated by donors for specific operating purposes or the acquisition of property and equipment, are time-restricted, or are required by donors to be held in perpetuity with investment return used for operations and scholarships.

REVENUE AND REVENUE RECOGNITION

Tuition and fees revenue:

For both the traditional and nontraditional programs, tuition revenue is recognized in the reporting period in which the academic programs are delivered. Traditional programs are delivered in the Fall (mid-August to mid-December) and Spring (mid-January to mid-May) academic terms, as well as one Summer term described below. Nontraditional courses are delivered in six-week and twelve-week intervals, with instruction periods beginning each month.

Merit and need-based institutional scholarships are awarded to students to defray the costs of the academic programs, which reduce the amount of revenue recognized. Payments for tuition are due by the start of the academic term.

The Seminary offers one traditional Summer term, starting in early May and ending in mid-August. Revenue for the Summer term is recognized ratably over the term.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE AND REVENUE RECOGNITION, continued

Net tuition and fees revenue consist of:

Tuition and fees	\$ 17,503,726
Less student aid	<u>(3,889,898)</u>
Net tuition and fees	<u>\$ 13,613,828</u>

Auxiliary enterprise revenue:

Auxiliary enterprises exist to furnish goods or services to students, faculty, staff, or incidentally to the general public. Fees charged for auxiliary enterprises are priced to offset the cost of the goods or services provided. The distinguishing characteristic of auxiliary enterprises is that they are managed as an essentially self-supporting activity. Revenues and expenses from auxiliary enterprises are reported as changes in net assets without donor restrictions.

Auxiliary enterprises revenue includes activities for student housing and dining facilities, coffee shops, and the campus bookstore. A small number of institutional scholarships specifically for defraying the costs of residential services are awarded, which reduce the amount of revenue recognized. Payments for housing and dining services are due approximately by the start of the academic term. Dining plans are not offered during the summer term. Performance obligations for housing and dining services are delivered over the academic terms. Consequently, associated revenues are earned and recognized over the course of each term as the services are delivered.

Contributions and support:

The Seminary recognizes support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Seminary. Conditional promises to give with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met.

A portion of the Seminary's revenue is derived from cost-reimbursable federal contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Seminary has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position.

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE AND REVENUE RECOGNITION, continued

The Seminary reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Seminary reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the Seminary reports expirations of donor restrictions when donated or acquired assets have been placed in service.

Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law.

EXPENSES

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The Seminary's primary program services are instruction. Expenses reported as student services and auxiliary enterprise are incurred in support of these primary program services.

STUDENT FINANCIAL ASSISTANCE PROGRAMS

The Seminary participates in various programs administered by the Department of Education (ED) and state boards, and the Seminary acts as an agent for the respective agencies. The governmental grants amounts reported exclude funds directly awarded and credited to students under the various federal and state programs; however, substantial portions of the tuition and fees revenue and collection of accounts receivable as of July 31, 2022, are dependent upon the Seminary's continued participation in the various programs.

OPERATING AND NONOPERATING ACTIVITIES

The consolidated statement of activities present the changes in net assets of the Seminary from both operating activities and nonoperating activities. Operating revenues and expenses relate primarily to educational programs provided by the Seminary. The portion of investment return appropriated for operations and student scholarships on long-term investments held for endowments and similar purposes under the Seminary's total return spending policy is considered operating revenue.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

OPERATING AND NONOPERATING ACTIVITIES, continued

Nonoperating activities consist primarily of (a) investment return in excess of endowments, (b) other components of net periodic post-retirement costs, (c) post-retirement related changes other than net periodic post-retirement costs, and (d) change in value of beneficial interest in trusts held by others.

3. LIQUIDITY AND FUNDS AVAILABLE:

The following reflects the Seminary's financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

Financial assets:

Cash and cash equivalents	\$ 23,768,601
Students accounts receivable-net	719,212
Investments	39,280,289
Financial assets, at year-end	63,768,102
Less those unavailable for general expenditures within one year:	
Perpetual endowments and accumulated earnings subject to appropriation beyond one year	(33,104,347)
Board-designated net assets subject to appropriation beyond one year	(5,962,284)
Financial assets available to meet cash needs for general expenditures within one year	\$ 24,701,471

The Seminary has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Seminary also has a pre-approved available line of credit for up to \$1,500,000 with a bank, which could be drawn upon in the event of an unanticipated liquidity need. At July 31, 2022, there were no funds borrowed under this agreement. Additionally, the board-designated quasi endowment funds could be released through board approval for operating cash needs.

4. STUDENT ACCOUNTS RECEIVABLE-NET:

Student accounts receivable-net consists of:

Student accounts receivable	\$ 992,352
Less allowance for doubtful accounts	(273,140)
	\$ 719,212

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

5. INVESTMENTS:

Investments consist of:

Held at fair value:

Equities	\$ 7,316,019
Mutual funds and exchange-traded funds	6,181,806
	13,497,825

Held at net asset value:

Alternative investments:

Hedge funds	5,540,498
Private equity	1,500,000
Private credit	3,080,803
Real assets (natural resources, farmland, real estate)	10,772,670
	20,893,971

Held at cost:

Cash and cash equivalents	4,888,493
	4,888,493
	\$ 39,280,289

All investments are held for endowments and scholarships.

Investment income was used for the following purposes:

Appropriated by the board for operations	\$ 1,615,000
Nonoperating investment income:	
Without donor restrictions	(380,415)
With donor restrictions	(1,954,510)
	\$ (719,925)

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

6. PROPERTY, PLANT, AND EQUIPMENT–NET:

Property, plant, and equipment–net consists of:

Land	\$ 1,674,247
Land improvements	2,463,216
Buildings and improvements	57,203,867
Furniture, fixtures, and equipment	11,858,095
Software	991,505
	<u>74,190,930</u>
Less accumulated depreciation	(40,331,186)
	<u>33,859,744</u>
Construction in progress	697,425
	<u><u>\$ 34,557,169</u></u>

7. DEFERRED REVENUE:

The activity and balances for deferred revenue from contracts with students are shown in the following table:

Beginning balance	\$ 1,615,534
Revenue recognized	(1,615,534)
Refunds issued	-
Payments received for future performance obligations	1,734,671
	<u>1,734,671</u>
Ending balance	<u><u>\$ 1,734,671</u></u>

8. LINE OF CREDIT:

At July 31, 2022, 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 1.50%. There were no outstanding borrowings under the line of credit agreement during the year ended July 31, 2022. 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.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

9. 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.

The following tables provide a reconciliation of the changes in the post-retirement benefit obligation and the assumptions used in the actuarial calculations.

Benefit obligation at beginning of year:	\$ 12,332,032
Net periodic post-retirement costs	752,734
Post-retirement related changes other than net periodic post-retirement cost	(973,186)
Benefits paid	<u>(342,645)</u>
Benefit obligation at end of year	<u><u>\$ 11,768,935</u></u>

Net periodic post-retirement benefit costs included in functional expenses:

Service cost	<u>\$ 429,112</u>
Interest cost	<u>323,622</u>
Net periodic post retirement cost other than service cost	<u>323,622</u>
	<u><u>\$ 752,734</u></u>

Net periodic post-retirement cost other than service cost is reported as other components of net periodic post-retirement cost on the statement of activities.

Post-retirement related changes other than net periodic post-retirement cost, included in nonoperating activities, are as follows:

Change in discount rate assumption	\$ (3,740,823)
Change in other economic assumptions	3,406,145
Change in demographic assumptions	51,324
Actuarial gain	<u>(689,832)</u>
	<u><u>\$ (973,186)</u></u>

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

9. POSTRETIREMENT BENEFITS, continued:

Assumptions are made using the weighted-average and assumed annual increases as follows:

Discount rate	4.3%
Rate of compensation increase	3%
Projected health care trend rate (Pre-65 Medical/Rx)	7.3% - 8.4%
Projected health care trend rate (Post-65 Medical/Rx)	3.8% - 6.5%
Ultimate rate-Pre-65 (Medical/Rx)	4.4% - 4.9%
Ultimate rate-Post-65 (Medical/Rx)	3.8% - 4.9%
Year ultimate trend rate is achieved	2030

The mortality basis for the year ended July 31, 2022, is based upon Pri-2012 projected from 2012 to 2021 using the MP-2021-GFR projection scale.

Future benefits are expected to be paid as follows:

<u>Years Ending July 31,</u>	<u>Amounts</u>
2023	\$ 554,389
2024	547,540
2025	549,695
2026	579,762
2027	596,256
2028-2031	<u>3,310,000</u>
	<u><u>\$ 6,137,642</u></u>

10. DISCLOSURES OF FAIR VALUE AND FAIR VALUE MEASUREMENTS:

The *Fair Value Measurements and Disclosure* topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Seminary uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Seminary measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

10. DISCLOSURES OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

Fair values of assets and liabilities measured on a recurring basis at July 31, 2022, are as follows:

	Fair Value Measurements at July 31, 2022			
	Total	Level 1	Level 2	Level 3
Beneficial interest in trusts held by others	\$ 5,471,220	\$ -	\$ -	\$ 5,471,220
Investments:				
Equities	7,316,019	7,316,019	-	-
Mutual funds and exchange-traded funds	6,181,806	6,181,806	-	-
	13,497,825	\$ 13,497,825	\$ -	\$ -
Alternative investments, measured at net asset value:				
Hedge funds	5,540,498			
Private equity	1,500,000			
Private credit	3,080,803			
Real assets	10,772,670			
	20,893,971			
Total investments, at fair value	\$ 39,863,016			

The following table provides details of the Level 3 fair value measurement:

Beginning balance	\$ 7,357,191
Change in value of beneficial interest in trusts held by others	(1,885,971)
Ending balance	\$ 5,471,220

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

10. DISCLOSURES OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

Methods and assumptions used by the Seminary in estimating fair values are as follows:

Beneficial interest in trusts held by others—The fair value of beneficial interest in trusts held by others is based on the value of the Seminary's proportional share of the overall assets held by the other organizations.

Equities, mutual funds, and exchange-traded funds—The fair value of these financial instruments is based upon quoted market prices or dealer quotes in an active market.

Alternative investments—Based on valuations for which a readily determinable fair value does not exist. These investments are not listed on national exchanges or over-the-counter markets, and quoted market prices are not available. These investments include hedge funds, private equity funds, private credit funds, and real assets. Management uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The Organization's investments in limited partnerships are valued using NAV per share and management estimates the fair values of these investments based on a review of all available information provided by fund managers and general partners. The Organization also takes into consideration audited financial information to determine overall reasonableness of the recorded value. These fair value estimates are evaluated on a regular basis by management and are susceptible to revisions as more information becomes available. Because of these factors, it is reasonably possible that the estimated fair values of these investments may change materially in the near term. The alternative investments have passed initial lock-up periods and are available for quarterly distributions with 30-90 days advanced notice.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

11. NET ASSETS:

Net assets consist of:

Without donor restrictions:

Undesignated	\$ 31,159,215
Board-designated	6,219,291
	37,378,506

With donor restrictions:

Restricted by purpose or time:

Accumulated gains	6,934,680
Scholarships	2,203,858
Faculty	149,594
Project renovations	3,079,997
Institutional support	926,373
Lectures and awards	114,415
Library	21,973
Other	2,150,708
	15,581,598

Restricted in perpetuity:

Endowment funds	27,697,660
Beneficial interest in trusts held by others	5,471,220
	33,168,880
	\$ 86,128,984

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

12. ENDOWMENT FUNDS:

The Seminary's endowment consists of approximately 370 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees of the Seminary has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Seminary classifies net assets restricted in perpetuity as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as net assets restricted by purpose or time until those amounts are appropriated for expenditure by the Seminary in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Seminary and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Seminary
7. The investment policies of the Seminary

Endowment net asset composition by type at July 31, 2022:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gift	
Board-designated	\$ 6,219,291	\$ -	\$ -	\$ 6,219,291
Donor-restricted funds	-	6,934,680	27,697,660	34,632,340
	\$ 6,219,291	\$ 6,934,680	\$ 27,697,660	\$ 40,851,631

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

12. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended July 31, 2022:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gift	
Endowment net assets, beginning of year	\$ 6,567,284	\$ 8,889,190	\$ 26,919,206	\$ 42,375,680
Investment return:				
Dividend and interest income	32,422	-	-	32,422
Net realized/unrealized losses	(99,561)	(620,364)	-	(719,925)
	<u>(67,139)</u>	<u>(620,364)</u>	<u>-</u>	<u>(687,503)</u>
Contributions	-	-	778,454	778,454
Appropriations	(280,854)	(1,334,146)	-	(1,615,000)
Endowment net assets, end of year	<u>\$ 6,219,291</u>	<u>\$ 6,934,680</u>	<u>\$ 27,697,660</u>	<u>\$ 40,851,631</u>

Description of amounts classified as net assets restricted in perpetuity and net assets restricted by purpose or time (endowment only):

Net assets restricted in perpetuity:

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulations or by SPMIFA

\$ 27,697,660

Net assets restricted by purpose or time:

The portion of perpetual endowment funds subject to a time restriction under SPMIFA with purpose restrictions

\$ 6,934,680

Funds with Deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Seminary to retain as a fund of perpetual duration. As of July 31, 2022, deficiencies of this nature exist in 13 funds, which together have an original gift value of \$5,513,220, a fair value of \$5,316,668, and a deficiency of \$196,552. These deficiencies resulted from unfavorable market fluctuations.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

12. ENDOWMENT FUNDS, continued:

Return Objectives and Risk Parameters:

The Seminary has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Seminary must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The overall investment objective is to preserve, over time, the principal value of the assets as measured in real, inflation adjusted terms. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately eight percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives:

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

Spending Policy and How the Investment Objectives Related to Spending Policy:

The Seminary has a policy of appropriating for distribution each year up to 5% of its endowment fund's rolling average fair value over the preceding three years. 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

July 31, 2022

13. EXPENSES BY BOTH NATURE AND FUNCTION:

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Depreciation is allocated on a square-footage basis. Salaries and benefits, are allocated directly to the function where time and effort are expended. Student aid expense consists of emergency payments made to students under the CARES Act and are part of the scholarships and fellowships function; the Seminary has reported those expenditures as part of the student services function. Functional expenses by natural classification as of July 31, 2022:

	Program Activities			Total Program	Institutional Support		Total Expenses
	Instructional	Student Services	Auxiliary Enterprises		General and Administrative	Institutional Advancement	
Salaries and benefits	\$ 11,304,812	\$ 995,878	\$ 1,034,783	\$ 13,335,473	\$ 4,541,001	\$ 1,892,596	\$ 19,769,070
Utilities, alterations and repairs	44,509	10,524	978,511	1,033,544	1,231,229	12,971	2,277,744
Insurance	-	-	-	-	633,097	-	633,097
Employee development and travel	239,672	7,663	329	247,664	200,375	407,132	855,171
Supplies and services	1,358,553	346,124	2,521,254	4,225,931	1,501,723	806,137	6,533,791
Depreciation	416,925	-	1,336,354	1,753,279	305,576	-	2,058,855
Student aid	-	837,934	-	837,934	-	-	837,934
Total operating activities	13,364,471	2,198,123	5,871,231	21,433,825	8,413,001	3,118,836	32,965,662
Other components of net periodic post-retirement costs	-	-	-	-	323,622	-	323,622
Total expenses	\$ 13,364,471	\$ 2,198,123	\$ 5,871,231	\$ 21,433,825	\$ 8,736,623	\$ 3,118,836	\$ 33,289,284

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2022

14. LEASES:

The Seminary has an operating lease for student housing that expires in 2030. Total rental expense for this operating lease for the year ended July 31, 2022, was \$1,709,243.

Future minimum operating lease payments are as follows:

<u>Years Ending July 31,</u>	<u>Amounts</u>
2023	\$ 1,670,054
2024	1,670,054
2025	1,689,649
2026	1,787,620
2027	1,787,620
Thereafter	5,064,924
	\$ 13,669,921

15. EMPLOYEE BENEFITS:

RETIREMENT PLAN

The Seminary sponsors a defined contribution retirement plan (the Plan), which covers substantially all full-time regular employees. The Plan 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%. Contributions to the Plan are held by the Plan custodian. 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 year ended July 31, 2022, was \$1,107,782.

HEALTH INSURANCE

Effective January 2022, the Seminary switched from a traditional group health insurance plan to managed individual health insurance plans. The Seminary has recorded a shared responsibility payment liability of \$285,542 as of July 31, 2022. The Seminary also gives full-time employees access to certain HRA (health reimbursement arrangement) funds. As of July 31, 2022, the Seminary has recorded an HRA liability of \$126,528. The shared responsibility payment and HRA liabilities are included with accrued expenses and other liabilities on the consolidated statement of financial position.

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 31, 2022

16. RISKS AND UNCERTAINTIES:

In March 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant declines and volatility in financial markets. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Seminary for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve.

As part of the response to the impact of COVID-19, the Seminary applied for a Paycheck Protection Program (PPP) Loan, administered by the Small Business Administration (SBA), under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law in March 2020. The Seminary was approved for and received the proceeds of a loan in the amount of \$3,509,900. The loan bears interest at a fixed rate of 1.00% and is due in April 2025. For the year ended July 31, 2022, outstanding loan proceeds amounted to \$3,509,900 and has been recorded as a refundable advance in the accompanying consolidated statement of financial position. Based on the provisions included in the CARES Act, the loan agreement provides for loan forgiveness up to the full amount of the loan, including accrued interest, provided the Seminary overcomes (meets) certain loan stipulations.

During the year ended July 31, 2022, the Seminary was awarded grants as part of the Higher Education Emergency Relief Fund (HEERF) as created by the CARES Act. In accordance with FASB ASC 958-605, HEERF funding is recorded as a government grant and contract with donor restrictions and simultaneously released from restriction upon recognition in the accompanying consolidated statement of activities. During the year ended July 31, 2022, the Seminary recognized \$2,141,922 of HEERF revenue, and had \$-0- available to be drawn down.

17. RELATED PARTY TRANSACTIONS:

The SBC elects the Seminary's board of trustees as well as provides significant funding for operations. During the year ended July 31, 2022, the Convention made cash donations to the Seminary in the amount of \$7,438,243.

18. DONOR CONCENTRATION:

During the year ended July 31, 2022, 2 donors gave 16% of the Seminary's total private gifts and grants. The Seminary's operations and program activities could be impacted if these donor relationships were to be terminated and could not be replaced by new donors with comparable donations. The Organization believes these major donor relationships will be maintained.

19. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through December 16, 2022, which represents the date the consolidated financial statements were issued. Subsequent events after that date have not been evaluated.

FEDERAL AWARDS



**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTAL INFORMATION**

Board of Trustees
Southeastern Baptist Theological Seminary, Inc. and Subsidiary
Wake Forest, North Carolina

We have audited the consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and Subsidiary as of and for the year ended July 31, 2022, and our report thereon dated December 16, 2022, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1.

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 on page 26, is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the consolidated financial statements. The financial responsibility supplemental schedule on pages 36-38 is also presented for the purpose of additional analysis as required by the U.S. Department of Education 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Capin Crouse LLP

Lawrenceville, Georgia
December 16, 2022

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Schedule of Expenditures of Federal Awards

Year Ended July 31, 2022

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Agreement Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION:					
Student Financial Assistance Cluster:					
Federal Pell Grants	84.063	n/a		-	\$ 501,828
Total Student Financial Assistance Cluster					<u>501,828</u>
COVID-19 Education Stabilization Fund*:					
COVID-19 HEERF-Student Aid Portion	84.425E	P425E202808		-	834,484
COVID-19 HEERF-Institutional Portion	84.425F	P425F202699		-	1,356,074
COVID-19 Governors Emergency Education Relief Fund passed through North Carolina Education Assistance Authority	84.425C	n/a	30-06-33	-	38,662
Total COVID-19 Education Stabilization Fund					<u>2,229,220</u>
Total U.S. Department of Education					<u>2,731,048</u>
U.S. DEPARTMENT OF THE TREASURY:					
COVID-19 Coronavirus State and Local Fiscal Recovery Funds passed through the State of North Carolina, Office of State Budget and Management	21.027		OSBM-SOUTHEASTERN-171	-	165,000
Total U.S. Department of the Treasury					<u>165,000</u>
Total Expenditures of Federal Awards					<u>\$ 2,896,048</u>
* Major program	See notes to schedule of expenditures of federal awards				

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Schedule of Expenditures of Federal Awards

July 31, 2022

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of Southeastern Baptist Theological Seminary, Inc. and Subsidiary (Seminary) under programs of the federal government for the year ending July 31, 2022. The information in the schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements. Expenditures in 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. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. If the Seminary is required to match certain federal assistance, as defined by the grant agreements, no such matching has been included as expenditures in the schedule.

2. INDIRECT COST RATE:

The Seminary has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. RELATIONSHIP TO CONSOLIDATED FINANCIAL STATEMENTS:

The amount of total expenditures of federal awards reconciles to the revenue in the consolidated statement of activities as follows:

Total expenditures of federal awards	\$ 2,896,048
Less:	
Federal Pell Grant	(501,828)
HEERF expenditures recognized as revenue in prior period	<u>(50,549)</u>
Grants in consolidated statement of activities	<u><u>\$ 2,343,671</u></u>

4. SUBRECIPIENTS, NON-CASH ASSISTANCE, FEDERAL INSURANCE, LOANS, AND LOAN GUARANTEES:

The Seminary did not provide any federal funds to subrecipients nor did they receive any federal non-cash assistance, insurance, loans, or loan guarantees. The Seminary did receive a Small Business Administration (SBA) Paycheck Protection Program (PPP) loan in the amount of \$3,509,900. (See Note 16 to the financial statements) The SBA has indicated that PPP loans are not subject to Uniform Guidance audit requirements and therefore, the PPP loan is not included in the schedule.

**INDEPENDENT AUDITORS' 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**

Board of Trustees
Southeastern Baptist Theological Seminary, Inc. and Subsidiary
Wake Forest, North Carolina

We have audited, 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, the consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and Subsidiary (Seminary), which comprise the consolidated statement of financial position as of July 31, 2022, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 16, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Southeastern Baptist Theological Seminary, Inc. and Subsidiary's internal control over financial reporting (internal control) as a basis for designing 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 Southeastern Baptist Theological Seminary, Inc. and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Southeastern Baptist Theological Seminary, Inc. and Subsidiary'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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001, that we consider to be a significant deficiency.

Board of Trustees
Southeastern Baptist Theological Seminary, Inc. and Subsidiary
Wake Forest, North Carolina

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeastern Baptist Theological Seminary, Inc. and Subsidiary’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 consolidated 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*.

Organization’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Southeastern Baptist Theological Seminary, Inc. and Subsidiary’s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Southeastern Baptist Theological Seminary, Inc. and Subsidiary’s response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on the response.

Purpose of 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 Southeastern Baptist Theological Seminary, Inc. and Subsidiary’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southeastern Baptist Theological Seminary, Inc. and Subsidiary’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Lawrenceville, Georgia
December 16, 2022

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

Board of Trustees
Southeastern Baptist Theological Seminary, Inc. and Subsidiary
Wake Forest, North Carolina

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Southeastern Baptist Theological Seminary, Inc. and Subsidiary's (Subsidiary) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Southeastern Baptist Theological Seminary, Inc. and Subsidiary's major federal programs for the year ended July 31, 2022. Southeastern Baptist Theological Seminary, Inc. and Subsidiary's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Southeastern Baptist Theological Seminary, Inc. and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended July 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the 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). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditors' Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of Southeastern Baptist Theological Seminary, Inc. and Subsidiary, and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Southeastern Baptist Theological Seminary, Inc. and Subsidiary's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Southeastern Baptist Theological Seminary, Inc. and Subsidiary's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Southeastern Baptist Theological Seminary, Inc. and Subsidiary's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Southeastern Baptist Theological Seminary, Inc. and Subsidiary's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Southeastern Baptist Theological Seminary, Inc. and Subsidiary's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Southeastern Baptist Theological Seminary, Inc. and Subsidiary's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Southeastern Baptist Theological Seminary, Inc. and Subsidiary's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Board of Trustees
Southeastern Baptist Theological Seminary, Inc. and Subsidiary
Wake Forest, North Carolina

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the *Auditors' Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Capin Crouse LLP

Lawrenceville, Georgia
December 16, 2022

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY
AND SUBSIDIARY**

Schedule of Findings and Questioned Costs

July 31, 2022

Section I – Summary of Audit Results

Consolidated Financial Statements:

Type of auditors' report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes no
- Significant deficiency(ies) identified that are not considered a material weakness? _____ yes _____ none reported

Noncompliance material to consolidated financial statements noted?

_____ yes no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? _____ yes no
- Significant deficiency(ies) identified that are not considered a material weakness? _____ yes _____ none reported

Type of auditors' report issued on compliance for major programs: unmodified

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

_____ yes no

Identification of major program(s):

Assistance Listing Numbers
84.425E, 84.425F and 84.425C

Name of Federal Program or Cluster
COVID-19 Education Stabilization Fund

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

Auditee qualified as low-risk auditee? _____ yes no

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY
AND SUBSIDIARY**

Schedule of Findings and Questioned Costs

July 31, 2022

Section II – Financial Statement Findings

2022-001 Lack of Dual Controls

Significant Deficiency

Condition: During the audit, we noted several individuals can access unprocessed checks alone. Some of these individuals have access to the donor system, while others have access to the general ledger.

Criteria: Adequate internal control functions over the financial reporting process.

Cause: Lack of implementation of segregation of duties.

Effect: Exposure to unintended risk.

Recommendation: We recommend two people be present when the mail is opened, and that checks be stamped “for deposit only” immediately upon opening. The individuals opening the mail should also sign and date the batch after the donations are counted.

Views of Responsible Officials and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY
AND SUBSIDIARY**

Schedule of Findings and Questioned Costs

July 31, 2022

Section III – Federal Award Findings and Questioned Costs

There are no current year findings that were considered material instances of noncompliance in accordance with Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Financial Responsibility Supplemental Schedule

Year Ended July 31, 2022

Primary Reserve Ratio:		Expendable Net Assets:	
1	Consolidated statement of financial position—Net assets without donor restrictions, page 3	Net assets without donor restrictions	37,378,506
2	Consolidated statement of financial position—Net assets with donor restrictions, page 3	Net assets with donor restrictions	48,750,478
3	None	Secured and Unsecured related party receivable	\$ -
4	None	Unsecured related party receivable	-
5	Notes to financial responsibility supplemental schedule—Property, plant, and equipment, net, Line 4	Property, plant and equipment, net (includes construction in progress)	<u>34,557,169</u>
6	Notes to financial responsibility supplemental schedule—Property, plant, and equipment, net, Line 1c	Property, plant, and equipment—pre-implementation	29,621,705
7	None	Property, plant, and equipment post-implementation with outstanding debt for original purchase	-
8	Notes to financial responsibility supplemental schedule—Property, plant, and equipment, net, Line 3e	Property, plant, and equipment—post-implementation without outstanding debt for original purchase	4,238,039
9	Notes to financial responsibility supplemental schedule—Property, plant, and equipment, net, Line 2d	Construction in progress—post-implementation without outstanding debt for original purchase	697,425
10	None	Lease right-of-use asset, net*	-
11	None	Lease right-of-use asset, pre-implementation*	-
12	None	Lease right-of-use asset, post-implementation*	-
13	None	Intangible assets	-
14	Consolidated statement of financial position—Post retirement benefit obligation, page 3	Post-employment and pension liabilities	11,768,935
15	None	Long-term debt—for long term purposes	-
16	None	Long-term debt—for long term purposes pre-implementation	-
17	None	Long-term debt - for long term purposes post-implementation	-
18	None	Line of Credit for Construction in progress	-
19	None	Lease right-of-use asset liability*	-
20	None	Pre-implementation right-of-use asset liability*	-
21	None	Post-implementation right-of-use asset liability*	-

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Financial Responsibility Supplemental Schedule

Year Ended July 31, 2022

22	None	Annuities, term endowments and life income with donor restrictions	-
23	None	Annuities with donor restrictions	-
24	None	Term endowments with donor restrictions	-
25	None	Life income funds with donor restrictions	-
26	Consolidated statement of financial position—Net assets with donor restrictions, restricted in perpetuity, page 3	Net assets with donor restrictions: restricted in perpetuity	33,168,880
27	Consolidated statement of activities—Without donor restrictions, lines 28, 29, and 32 below, page 4	Total Expenses and Losses:	33,408,982
28	Consolidated statement of activities—Total operating expenses without donor restrictions, page 4	Total expenses without donor restrictions—taken directly from consolidated statement of activities	32,965,662
29	Consolidated statement of activities—Operating investment return designated for operating activities, \$280,854, and non-operating investment return net of amount designated for current operations (\$380,415), without donor restrictions, page 4	Net investment losses	99,561
30	Consolidated statement of cash flows—Loss on disposal of property, plant, and equipment, page 5 (also included within other income on the consolidated statement of activities, without donor restrictions, page 4)	Loss on disposal of property, plant, and equipment	20,137
31	None, pension-related changes other than net periodic costs properly included at line 49 below	Pension-related changes other than net periodic costs	-
32	Consolidated statement of activities—Other components of net periodic post-retirement costs, without donor restrictions, page 4	Other components of net periodic pension cost	323,622
	Equity Ratio:	Modified Net Assets:	
33	Consolidated statement of financial position—Net assets without donor restrictions, page 3	Net assets without donor restrictions	37,378,506
34	Consolidated statement of financial position—Total net assets with donor restriction, page 3	Net assets with donor restrictions	48,750,478
35	None	Intangible assets	-
36	None	Intangible assets	-
37	None	Secured and Unsecured related party receivables	\$ -
38	None	Unsecured related party receivables	-
		Modified Assets:	
39	Consolidated statement of financial position—Total assets, page 3	Total assets	105,099,415
40	None	Lease right-of-use asset pre-implementation*	-
41	None	Pre-implementation right-of-use asset liability*	-
42	None	Intangible assets	-
43	None	Secured and Unsecured related party receivables	\$ -
44	None	Unsecured related party receivables	-

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Financial Responsibility Supplemental Schedule

Year Ended July 31, 2022

Net Income Ratio:		
45	Consolidated statement of activities—Change in net assets without donor restrictions, page 4	1,643,373
	Change in Net Assets Without Donor Restrictions	
46	Consolidated statement of activities—Without donor restrictions, lines 47 and 49 below, page 4	
	Total Revenues and Gains	35,052,355
47	Consolidated statement of activities—Operating revenues and other support (including net assets released from restriction) without donor restriction, page 4	
	Total operating revenues and support \$34,339,886, less investment return for current operations (totaling \$280,854), properly shown net at line 29 above	34,059,032
48	None, investment return loss/net properly included at line 29 above	-
	Investment return-net	
49	Consolidated statement of activities—Post-retirement related changes other than net periodic post-retirement costs, without donor restrictions, page 4	
	Pension-related changes other than net periodic costs	973,186
50	Consolidated statement of cash flows—Loss on disposal of property, plant, and equipment, page 5 (also included within other income on the consolidated statement of activities, without donor restrictions, page 4). Since a loss, added back and properly reported at line 30 above.	
	Loss on disposal of property, plant, and equipment	20,137
	(*The Seminary has not adopted ASU 2016-02 as of July 31, 2022)	

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Financial Responsibility Supplemental Schedule

Year Ended July 31, 2022

The Department of Education issued regulations, effective July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV. These note disclosures are not required by accounting principles generally accepted in the United States of America but are intended for use by the Department of Education and to ensure compliance with Federal Title IV regulations.

Property, Plant, and Equipment, net

1	Pre-implementation property, plant, and equipment, net (PP&E, net)		
	a. Beginning pre-implementation property, plant, and equipment, net as of July 31, 2021	\$	31,526,071
	b. Less subsequent (fiscal year end July 31, 2022) depreciation and disposals		<u>(1,904,366)</u>
	c. Ending pre-implementation property, plant, and equipment, net as of July 31, 2022		<u>29,621,705</u>
2	Post-implementation construction in progress without debt:		
	a. Beginning post-implementation construction in progress as of July 31, 2021		645,434
	b. Construction in progress placed into service, subsequent to July 31, 2021		(346,333)
	c. Construction in progress acquired subsequent to July 31, 2021		<u>398,324</u>
	d. Ending post-implementation construction in progress without debt as of July 31, 2022		<u>697,425</u>
3	Post-implementation property, plant, and equipment, net, acquired without debt:		
	a. Beginning post-implementation property, plant, and equipment, net without outstanding debt as of July 31, 2021		3,127,179
	b. Long-lived assets acquired without use of debt subsequent to July 31, 2021		939,153
	c. Long-lived assets transferred from CIP subsequent to July 31, 2021		346,333
	d. Less subsequent (fiscal year end July 31, 2022) depreciation and disposals		<u>(174,626)</u>
	e. Ending post-implementation property, plant, and equipment, net without outstanding debt as of July 31, 2022		<u>4,238,039</u>
4	Total Property, Plant, and Equipment, net—July 31, 2022	\$	<u><u>34,557,169</u></u>



SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Auditee Summary Schedule of Prior Year Findings

July 31, 2022

Financial Statement Findings

There were no prior audit findings in internal control over financial reporting.

Federal Award Findings

Finding Number: 2021-001 Gramm Leach Bliley Act Documentation

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 risks.

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

Current Status: This finding was resolved during the year ended July 31, 2022.

Reason for Reoccurring Finding and Planned Corrective Action: Not applicable.

Finding Number: 2021-002 Enrollment Reporting

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

Recommendation: It was recommended 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.

Current Status: This finding was resolved during the year ended July 31, 2022.

Reason for Reoccurring Finding and Planned Corrective Action: Not applicable.



**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Auditee Corrective Action Plan

July 31, 2022

Finding Number: 2022-001 Lack of Dual Controls

Planned Corrective Action: SEBTS will have two people present to open donations received in the mail.

Person Responsible for Corrective Action Plan: Drew Davis, Director of Financial Development

Anticipated Date of Completion: January 31, 2023

Christopher E. Hlavacek, CPA

Associate Vice President of Operations

hutchinson@sebts.edu // 919.761.2298 // sebts.edu // collegeatsoutheastern.com

120 S. Wingate Street, Wake Forest, NC 27587

Southeastern Baptist Theological Seminary // The College at Southeastern