

# McGladrey & Pullen

Certified Public Accountants

## **Southeastern Baptist Theological Seminary, Inc.**

Financial Report  
07.31.2008

Southeastern Baptist Theological Seminary, Inc.

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Trustees  
Southeastern Baptist Theological Seminary, Inc.  
Wake Forest, North Carolina

We have audited the accompanying statements of financial position of Southeastern Baptist Theological Seminary, Inc. as of July 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Seminary's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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. as of July 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6 to the financial statements, in 2007 the Seminary adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R), to account for its postretirement benefit plan.

*McGladrey & Pullen, LLP*

Raleigh, North Carolina  
November 12, 2008

Southeastern Baptist Theological Seminary, Inc.

Statements of Financial Position

July 31, 2008 and 2007

	2008	2007
<b>Assets</b>		
Cash	\$ 12,370,179	\$ 5,680,620
Accounts and notes receivable, less allowance for doubtful accounts 2008 and 2007 \$113,554	523,818	512,967
Accrued investment income receivable	-	833,685
Prepaid expenses and other assets	531,691	316,411
Inventories	32,410	21,154
Investments (Note 2)	18,882,345	24,061,452
Unamortized debt issuance costs	290,075	309,721
Property and equipment, net (Notes 3, 7, 9, and 14)	42,980,092	37,974,408
Beneficial interests in perpetual trusts (Note 4)	2,985,091	3,322,810
<b>Total assets</b>	<b>\$ 78,595,701</b>	<b>\$ 73,033,228</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and other accrued expenses	\$ 1,158,843	\$ 1,019,844
Student deposits	715,237	959,051
Deferred student tuition	921,944	271,369
Postretirement benefit liability (Note 6)	4,970,419	5,466,120
Due to donor of remainder trust	26,171	26,171
Long-term debt (Note 7)	1,207,314	1,353,814
Bonds payable (Note 9)	8,275,000	8,615,000
Capital lease obligation (Note 14)	73,636	-
<b>Total liabilities</b>	<b>17,348,564</b>	<b>17,711,369</b>
Commitments (Notes 3, 5, 6, 7, 9 and 14)		
Net assets:		
Unrestricted (Note 10)	30,958,457	26,749,821
Temporarily restricted (Note 11)	15,331,279	13,679,482
Permanently restricted (Note 12)	14,957,401	14,892,556
<b>Total net assets</b>	<b>61,247,137</b>	<b>55,321,859</b>
<b>Total liabilities and net assets</b>	<b>\$ 78,595,701</b>	<b>\$ 73,033,228</b>

See Notes to Financial Statements.

Southeastern Baptist Theological Seminary, Inc.

Statements of Activities

Years Ended July 31, 2008 and 2007

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Gross tuition and fees	\$ 6,856,752	\$ -	\$ -	\$ 6,856,752
Less institutional grants	679,219	-	-	679,219
	6,177,533	-	-	6,177,533
Sales and services of auxiliary enterprises	3,748,107	-	-	3,748,107
SBC Cooperative Program	8,811,347	-	-	8,811,347
Private gifts and bequests	680,265	3,608,972	277,802	4,567,039
Investment return designated for current operations (Note 2)	335,871	400,797	-	736,668
Total return (loss) on beneficial interest in perpetual trusts	54,634	(365,963)	97,367	(213,962)
Other income	538,286	-	-	538,286
<b>Total revenues, gains and other support</b>	<b>20,346,043</b>	<b>3,643,806</b>	<b>375,169</b>	<b>24,365,018</b>
Net assets released from program restrictions (Note 13)	1,120,846	(1,120,846)	-	-
Expenses:				
Educational and general:				
Instructional	7,830,343	-	-	7,830,343
Administrative and general	6,805,185	-	-	6,805,185
Operation and maintenance of plant	3,941,187	-	-	3,941,187
Student aid	40,029	-	-	40,029
<b>Total educational and general</b>	<b>18,616,744</b>	<b>-</b>	<b>-</b>	<b>18,616,744</b>
Auxiliary enterprises	4,208,978	-	-	4,208,978
<b>Total expenses</b>	<b>22,825,722</b>	<b>-</b>	<b>-</b>	<b>22,825,722</b>
<b>Change in net assets from operations</b>	<b>(1,358,833)</b>	<b>2,522,960</b>	<b>375,169</b>	<b>1,539,296</b>
Other changes:				
Gain (loss) on sale of property and equipment	5,509,258	-	-	5,509,258
Investment return (loss) in excess of amounts designated for current operations (Note 2)	(839,918)	(871,163)	(310,324)	(2,021,405)
<b>Change in net assets before effect of adoption of FASB Statement No. 158</b>	<b>3,310,507</b>	<b>1,651,797</b>	<b>64,845</b>	<b>5,027,149</b>
Effect of adoption of recognition and measurement provisions of FASB Statement No. 158 (Note 6)	-	-	-	-
Changes in postretirement benefit liability other than net periodic postretirement benefit costs (Note 6)	898,129	-	-	898,129
<b>Change in net assets</b>	<b>4,208,636</b>	<b>1,651,797</b>	<b>64,845</b>	<b>5,925,278</b>
Net assets:				
Beginning	26,749,821	13,679,482	14,892,556	55,321,859
Ending	<b>\$ 30,958,457</b>	<b>\$ 15,331,279</b>	<b>\$ 14,957,401</b>	<b>\$ 61,247,137</b>

See Notes to Financial Statements.

2007

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 6,729,849	\$ -	\$ -	\$ 6,729,849
648,777	-	-	648,777
6,081,072	-	-	6,081,072
3,712,145	-	-	3,712,145
8,504,962	-	-	8,504,962
589,577	2,530,608	648,120	3,768,305
342,262	364,776	-	707,038
58,108	75,179	95,781	229,068
165,846	-	-	165,846
19,453,972	2,970,563	743,901	23,168,436
1,514,524	(1,514,524)	-	-
7,433,011	-	-	7,433,011
6,600,087	-	-	6,600,087
3,143,056	-	-	3,143,056
165,501	-	-	165,501
17,341,655	-	-	17,341,655
3,913,224	-	-	3,913,224
21,254,879	-	-	21,254,879
(286,383)	1,456,039	743,901	1,913,557
(791)	-	-	(791)
509,872	857,073	422,736	1,789,681
222,698	2,313,112	1,166,637	3,702,447
(1,016,920)	-	-	(1,016,920)
-	-	-	-
(794,222)	2,313,112	1,166,637	2,685,527
27,544,043	11,366,370	13,725,919	52,636,332
\$ 26,749,821	\$ 13,679,482	\$ 14,892,556	\$ 55,321,859

Southeastern Baptist Theological Seminary, Inc.

Statements of Cash Flows

Years Ended July 31, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	\$ 5,925,278	\$ 2,685,527
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	1,562,286	1,261,669
Change in value of beneficial interest in perpetual trusts	337,719	(308,468)
Bad debt expense	41,266	8,549
Realized and unrealized (gain) loss on investments	1,876,483	(1,897,303)
(Gain) loss on sale or disposal of property and equipment	(5,509,258)	791
(Increase) decrease in:		
Accounts and notes receivable	(52,117)	(154,047)
Accrued investment income receivable	833,685	(4,366)
Prepaid expenses and other assets	(215,280)	(84,990)
Inventories	(11,256)	(3,300)
Increase (decrease) in:		
Accounts payable and other accrued expenses	138,999	381,048
Student deposits	(243,814)	454,362
Postretirement benefit liability	(495,701)	1,378,689
Deferred student tuition	650,575	(53,166)
Interest and dividends restricted for reinvestment	(102,885)	(75,565)
Contributions restricted for long-term investments	(277,802)	(648,120)
Contributions restricted for property and equipment	(1,196,500)	(1,557,108)
<b>Net cash provided by operating activities</b>	<b>3,261,678</b>	<b>1,384,202</b>
Cash Flows From Investing Activities		
Proceeds from sale of investments	47,212,472	7,896,135
Purchase of investments	(43,909,848)	(7,410,306)
Proceeds from the sale of property and equipment	5,545,637	-
Purchases of property and equipment	(6,507,110)	(2,788,132)
<b>Net cash provided by (used in) investing activities</b>	<b>2,341,151</b>	<b>(2,302,303)</b>

(Continued)



Southeastern Baptist Theological Seminary, Inc.

Statements of Cash Flows (Continued)

Years Ended July 31, 2008 and 2007

	2008	2007
Cash Flows From Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	\$ 277,802	\$ 648,120
Property and equipment	1,196,500	1,557,108
Other financing activities:		
Proceeds from debt issuance	-	505,326
Payments for debt issuance costs	-	(33,072)
Payments on bonds payable	(340,000)	(330,000)
Payments on long-term debt	(146,500)	(111,762)
Payments on capital lease obligation	(3,957)	-
Interest and dividends restricted for reinvestment	102,885	75,565
<b>Net cash provided by financing activities</b>	<b>1,086,730</b>	<b>2,311,285</b>
<b>Net increase in cash</b>	<b>6,689,559</b>	<b>1,393,184</b>
Cash:		
Beginning	5,680,620	4,287,436
Ending	<u>\$ 12,370,179</u>	<u>\$ 5,680,620</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	<u>\$ 340,572</u>	<u>\$ 390,483</u>
Supplemental Schedule of Noncash Investing and Financing Activities		
Capital lease obligation incurred for the use of equipment	<u>\$ 77,593</u>	<u>\$ -</u>

See Notes to Financial Statements.

## Southeastern Baptist Theological Seminary, Inc.

### Notes to Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Southeastern Baptist Theological Seminary, Inc. (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. It is governed by the Board of Trustees who are elected by the Southern Baptist Convention. Outlined below are the accounting and reporting policies considered significant by the Seminary.

Basis of presentation: In preparing its 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:

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

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Seminary and/or by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Seminary. Generally, the donors of these assets permit the Seminary to use all or part of the earnings on the related investments for general or specific purposes.

Use of estimates: The preparation of financial statements 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 Branch Banking and Trust Company in amounts that are at times in excess of federal insurance limits, including the entire cash balance at July 31, 2008 and 2007. Cash includes temporarily restricted amounts of \$6,011,146 and \$4,877,375 at July 31, 2008 and 2007, respectively. 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 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 receivables and notes receivables previously written off are recorded when received.

A student accounts receivable is considered past due if any portion of the receivable balance is outstanding for more than 120 days. Interest is not charged on student accounts receivable. A note receivable is considered past due if the note balance and unpaid interest is outstanding past the note maturity date. After the note receivable becomes past due, it is on nonaccrual status and accrual of interest is suspended.

## Southeastern Baptist Theological Seminary, Inc.

### Notes to Financial Statements

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

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based upon quoted market prices 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.

Debt issue costs: Costs incurred in issuing the Series 2005 Educational Facilities Revenue Bonds issued by the Colorado Educational and Cultural Facilities Authority and loaned to the Seminary are deferred and amortized to income over the term of the bonds by the interest method.

Long-lived assets: Cash or other assets whose purpose is to acquire long-lived assets are recorded as unrestricted if the Seminary has internally designated such assets or restricted 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 also recorded as unrestricted net assets.

Property and equipment: Property and equipment is stated at cost less accumulated depreciation. Property and equipment is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Land improvements	10
Buildings	40 (plus actual life prior to 1993)
Equipment	5 - 10

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 with donor-imposed restrictions are recorded as temporarily restricted net assets until the restrictions are met or as permanently restricted net assets. At the time that temporary restrictions are met, they are reported as net assets released from restrictions. Contributions received with donor-imposed restrictions are reported as unrestricted 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.

Postretirement benefits: The Seminary provides certain postretirement benefits, including health care benefits, for all retired employees that meet certain eligibility requirements. The Seminary follows the provisions of Financial Accounting Standards Board ("FASB") Statement No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("SFAS 158") to account for the costs of those benefits. Under that Statement, the Seminary recognizes the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position.

Income taxes: The Seminary is exempt from federal and state income taxes.

Southeastern Baptist Theological Seminary, Inc.

Notes to Financial Statements

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

Recent accounting pronouncements: In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States ("GAAP"), and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. However, for some entities, the application of SFAS 157 will change current practice. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. In February 2008, the FASB approved a FASB Staff Position ("FSP") to delay the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Seminary has not assessed the impact of SFAS 157 on its financial position and results of operations and has not determined if the adoption of SFAS 157 will have a material effect on its consolidated financial statements.

Reclassifications: Certain amounts on the financial statements for 2007 have been reclassified, with no effect on net assets or the change in net assets, to be consistent with the classifications adopted for 2008.

**Note 2. Investments**

Investments at July 31, 2008 and 2007 consist of the following:

	2008		
	Cost	Net Unrealized Gains	Fair Value
Common stocks	\$ 11,212,182	\$ (341,874)	\$ 10,870,308
Equities funds	583,618	334,114	917,732
Pooled investments,			
Southern Baptist Foundation	44,635	2,691	47,326
Fixed income funds	6,144,202	(96,245)	6,047,957
Real estate	116,497	-	116,497
Short-term cash investments	882,525	-	882,525
	<u>\$ 18,983,659</u>	<u>\$ (101,314)</u>	<u>\$ 18,882,345</u>

Southeastern Baptist Theological Seminary, Inc.

Notes to Financial Statements

Note 2. Investments (Continued)

	2007		
	Cost	Net Unrealized Gains	Fair Value
Common stocks	\$ 6,395,503	\$ 1,261,555	\$ 7,657,058
Equities funds	2,741,873	1,742,513	4,484,386
Pooled investments, Southern Baptist Foundation	42,939	5,240	48,179
Fixed income funds	5,688,197	10,797	5,698,994
Real estate	151,497	-	151,497
Short-term cash investments	6,014,669	6,669	6,021,338
	<u>\$ 21,034,678</u>	<u>\$ 3,026,774</u>	<u>\$ 24,061,452</u>

The Seminary invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Seminary's investments have likely incurred a significant decline in fair value since July 31, 2008.

With respect to endowment funds, state law allows the Board to appropriate as much of the net appreciation as is prudent considering the Seminary's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the Seminary's endowment spending policy, 5 percent of the average fair value of the endowment investments as of July 31, 2007 and the previous two calendar years is appropriated to support current operations.

The following schedule summarizes the investment return and its classification in the statements of activities:

	2008			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Dividends and interest, net of expenses	\$ 167,110	\$ 321,751	\$ 102,885	\$ 591,746
Net change in unrealized appreciation	(1,118,815)	(1,320,455)	(688,818)	(3,128,088)
Net realized gains	447,658	528,338	275,609	1,251,605
<b>Total loss on investments</b>	<b>(504,047)</b>	<b>(470,366)</b>	<b>(310,324)</b>	<b>(1,284,737)</b>
Investment return designated for current operations	335,871	400,797	-	736,668
<b>Investment loss in excess of amounts designated for current operations</b>	<b>\$ (839,918)</b>	<b>\$ (871,163)</b>	<b>\$ (310,324)</b>	<b>\$ (2,021,405)</b>

Southeastern Baptist Theological Seminary, Inc.

Notes to Financial Statements

Note 2. Investments (Continued)

	2007			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Dividends and interest, net of expenses	\$ 184,621	\$ 339,230	\$ 75,565	\$ 599,416
Net change in unrealized depreciation	300,754	473,996	197,056	971,806
Net realized gains	366,759	408,623	150,115	925,497
<b>Total return on investments</b>	<b>852,134</b>	<b>1,221,849</b>	<b>422,736</b>	<b>2,496,719</b>
Investment return designated for current operations	342,262	364,776	-	707,038
<b>Investment return in excess of amounts designated for current operations</b>	<b>\$ 509,872</b>	<b>\$ 857,073</b>	<b>\$ 422,736</b>	<b>\$ 1,789,681</b>

Investment expenses for the years ended July 31, 2008 and 2007 were \$181,997 and \$136,618, respectively.

Note 3. Property and Equipment

Property and equipment at July 31, 2008 and 2007 consisted of the following:

	2008	2007
Land	\$ 559,506	\$ 594,661
Land improvements	2,032,549	2,032,549
Buildings	42,209,445	41,407,052
Equipment	6,452,239	5,782,688
Construction in progress	6,815,095	1,748,925
	58,068,834	51,565,875
Less accumulated depreciation	15,088,742	13,591,467
	<b>\$ 42,980,092</b>	<b>\$ 37,974,408</b>

As of July 31, 2008, contractual commitments related to the construction of a new building totaled \$117,177.

## Southeastern Baptist Theological Seminary, Inc.

### Notes to Financial Statements

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#### Note 4. Beneficial Interests in Perpetual Trusts

The North Carolina Baptist Foundation is administering certain deferred trust assets held for the benefit of Southeastern Baptist Theological Seminary, Inc. These trust assets are restricted in order 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 Perpetual Trusts.

#### Note 5. Retirement Plan

Permanent employees of Southeastern Baptist Theological Seminary, Inc. who normally work at least half time are participants in a retirement annuity plan sponsored by Guidestone Financial Resources of the Southern Baptist Convention. 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 2008 and 2007 was \$790,048 and \$767,851, respectively.

#### Note 6. Postretirement Benefits

During 2007, the Seminary adopted SFAS 158 for recognition of the funded status of its postretirement benefit plan. This Statement requires recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize changes in that funded status within changes in unrestricted net assets, apart from expenses, in the year in which the changes occur. The Statement also requires measurement of the funded status of a plan as of the date of financial position. The Seminary reflected a \$1,016,920 charge in the statement of activities, apart from expenses for 2007 in connection with the adoption of this Statement.

The Seminary sponsors a postretirement benefit plan for all employees that meet the eligibility requirements. The plan provides health benefits and is noncontributory and unfunded. The measurement dates used to determine the postretirement benefit measurements is the same as the Seminary's fiscal year-end.

Net periodic postretirement benefit costs recognized as expenses included the following components for the years ended July 31, 2008 and 2007:

	2008	2007
Service cost-benefits attributable to service during the year	\$ 193,235	\$ 211,150
Interest on accumulated postretirement benefit obligation	343,223	396,966
Amortization of unrecognized transition obligation	129,060	129,060
	<u>\$ 665,518</u>	<u>\$ 737,176</u>

Southeastern Baptist Theological Seminary, Inc.

Notes to Financial Statements

**Note 6. Postretirement Benefits (Continued)**

The accumulated postretirement benefit obligation recognized on the accompanying statement of financial position includes the following components and activity as of and for the year ended July 31, 2008 and 2007:

	2008	2007
Benefit obligation at beginning of year	\$ 5,466,120	\$ 4,087,431
Net periodic postretirement benefit costs	665,518	737,176
Benefits paid by the Seminary	(263,090)	(246,347)
Amortization of unrecognized transition obligation	(129,060)	(129,060)
Actuarial gain	(284,369)	-
Effect of change in discount rate assumption	(484,700)	-
Components of benefit obligation not yet recognized as net periodic postretirement benefit costs	-	1,016,920
<b>Benefit obligation at end of year</b>	<b>\$ 4,970,419</b>	<b>\$ 5,466,120</b>

Accumulated postretirement benefit obligation included the following components that have not yet been recognized as components of net periodic postretirement benefit costs at July 31, 2008 and 2007 but which have been reflected as a reduction to unrestricted net assets, apart from expenses, on the accompanying statement of activity for the years ended July 31, 2008 and 2007:

	2008	2007
Net transition obligation	\$ 887,860	\$ 1,016,920
Net experience gains	(784,626)	-
	<b>\$ 103,234</b>	<b>\$ 1,016,920</b>

The following amounts included in accumulated postretirement benefit obligation at July 31, 2008 that have not yet been recognized as components of net periodic postretirement benefit costs but are expected to be recognized as components of periodic postretirement benefit costs during the year ending July 31, 2009:

	2008
Amortization of unrecognized transition obligation	\$ 129,060
Net experience gains	(16,917)
	<b>\$ 112,143</b>



Southeastern Baptist Theological Seminary, Inc.

Notes to Financial Statements

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**Note 6. Postretirement Benefits (Continued)**

For measurement purposes, a 9.5% annual rate of increase in per capita health care costs of covered benefits was assumed for 2008 and 2007 with such annual rate of increase gradually declining to 5.0% by 2013. If assumed health care cost trend rates were increased by 1 percentage point in each year, the accumulated postretirement benefit obligation at July 31, 2008 and 2007 would be increased by approximately \$111,753 (2.25%) and \$133,113 (2.44%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2008 and 2007 would be increased by approximately \$12,763 (2.38%) and \$65,058 (13.58%), respectively.

If assumed health care cost trend rates were decreased by 1 percentage point in each year, the accumulated postretirement benefit obligation at July 31, 2008 and 2007 would be decreased by approximately \$100,566 (2.02%) and \$119,405 (2.18%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2008 and 2007 would be decreased by approximately \$11,090 (2.07%) and \$51,077 (10.66%), respectively.

The weighted average discount rate used in estimating the benefit obligation and net period benefit cost at July 31, 2008 and 2007 was 7.00% and 6.25%, 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 are as follows:

Year Ending July 31,	Amount
2009	\$ 324,299
2010	315,827
2011	312,868
2012	336,526
2013	348,495
2014 - 2018	1,808,114
	<u>\$ 3,446,129</u>

## Southeastern Baptist Theological Seminary, Inc.

### Notes to Financial Statements

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#### Note 7. Pledged Assets and Long-Term Debt

Long-term debt at July 31, 2008 and 2007 consisted of the following:

	2008	2007
Note payable to bank, interest at fixed rate of 6.85%, principal and interest payable monthly on outstanding balance commencing on January 1, 2007. Payments will be due under this note in 35 consecutive equal monthly payments of principal with one final payment of all remaining principal and accrued but unpaid interest due on December 1, 2009, collateralized by real estate with an approximate carrying value of \$7,725,000 at July 31, 2008	<u>\$ 1,207,314</u>	<u>\$ 1,353,814</u>

An amendment entered into during 2007 fixed the interest rate at 6.85% as of July 31, 2008 and 2007. Total interest expense for the years ended July 31, 2008 and 2007 was \$325,713, of which \$88,942 related to the note payable, and \$391,370, of which \$94,213 related to the note payable, respectively.

Aggregate maturities required on long-term debt as of July 31, 2008 are due in future years as follows:

Year	Amount
2009	\$ 146,500
2010	1,060,814
	<u>\$ 1,207,314</u>

The loan agreement associated with the note contains various covenants, including the requirement to maintain minimum tangible net worth of \$40,000,000, total unrestricted net assets of \$25,000,000, and minimum liquidity of \$3,000,000.

#### Note 8. Line of Credit

At July 31, 2007, the Seminary had an unsecured line of credit with a bank with available borrowings up to \$1,500,000 which expired in January 2008. The line of credit required the Seminary to meet various covenants. Borrowings under the line of credit were at LIBOR plus 1.85% and required monthly interest payments. There were no borrowings under the line of credit agreement as of or during the years ended July 31, 2008 and 2007.

## Southeastern Baptist Theological Seminary, Inc.

### Notes to Financial Statements

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#### Note 9. Bonds Payable

During 2005, the Colorado Educational and Cultural Facilities Authority ("the Authority"), pursuant to a trust agreement dated March 1, 2005 with The Bank of New York Trust Company, N.A. ("the Trustee"), issued revenue bonds in the amount of \$8,955,000. The Authority loaned the proceeds of the bonds through ASCI Capital Corporation ("ASCI") to the Seminary pursuant to a loan agreement between ASCI and the Seminary in which the Seminary is obligated to make payments to the Trustee in amounts sufficient to pay the principal and interest on the bonds. The bonds have variable rates with an average interest rate of 2.77% at July 31, 2008 (reset weekly) and mature on March 1, 2025, subject to various optional and potential mandatory redemptions prior to that date. A portion of the bond proceeds were used to repay previously existing debt of the Seminary with the balance of the remaining proceeds being used for the cost of the acquisition, construction and equipping a student housing facility and a facilities management building. The amounts outstanding at July 31, 2008 and 2007 were \$8,275,000 and \$8,615,000, respectively. Total interest expense for the years ended July 31, 2008 and 2007 was \$325,713 of which \$235,897 related to the bonds payable and \$391,370 of which \$297,157 related to the bonds payable, respectively.

These bonds are secured by an irrevocable, direct-pay letter of credit, issued by Branch Banking and Trust Company ("BB&T"), which has an initial term expiring on March 10, 2010, pursuant to a loan and letter of credit reimbursement agreement. Any drawings on the letter of credit by the Trustee will be considered loans from BB&T to the Seminary so long as there is no event of default under the reimbursement agreement. The agreement contains various restrictive covenants, the most specific of which requires the Seminary to maintain a long-term debt service coverage ratio of at least 1.20 to 1.00. The agreement also requires audited financial statements to be furnished to the bank within 120 days after the end of each fiscal year. The Seminary has given a deed of trust to real property and assigned rents and leases of the property as collateral for BB&T's letter of credit.

The Seminary has covenanted under the reimbursement agreement that it will make debt service payments pursuant to optional redemption provisions of the loan. Principal payments over the next five years and thereafter are as follows:

Year Ending July 31,	Amount
2009	\$ 355,000
2010	370,000
2011	380,000
2012	395,000
2013	410,000
Thereafter	6,365,000
	<u>\$ 8,275,000</u>

Southeastern Baptist Theological Seminary, Inc.

Notes to Financial Statements

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**Note 10. Unrestricted Net Assets**

Unrestricted net assets include board-designated amounts for endowment purposes at July 31, 2008 and 2007 of \$13,477,351 and \$6,738,437, respectively.

**Note 11. Temporarily Restricted Net Assets**

Temporarily restricted net assets as of July 31, 2008 and 2007 are available for the following purposes:

	2008	2007
Project renovations	\$ 7,811,902	\$ 6,854,441
Scholarships	4,521,522	3,336,568
Faculty	982,214	1,278,101
Loans to students	595,130	586,933
Remainder trusts	378,162	743,908
Lectures and awards	229,499	253,836
Library	186,839	216,636
Other	626,011	409,059
	<u>\$ 15,331,279</u>	<u>\$ 13,679,482</u>

**Note 12. Permanently Restricted Net Assets**

Permanently restricted net assets at July 31, 2008 and 2007 are restricted to:

	2008	2007
Investment in perpetuity, the income from which is expendable to support:		
Faculty	\$ 5,328,044	\$ 5,362,221
Institutional support	4,487,497	4,486,747
Scholarships	4,478,463	4,382,355
Lectures and awards	292,280	290,937
Library	246,618	247,418
Plant maintenance	124,499	122,878
	<u>\$ 14,957,401</u>	<u>\$ 14,892,556</u>

Southeastern Baptist Theological Seminary, Inc.

Notes to Financial Statements

**Note 13. Net Assets Released From Donor Restrictions**

Net assets during the years ended July 31, 2008 and 2007 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

	2008	2007
Purpose restrictions accomplished:		
Scholarships	\$ 673,137	\$ 659,155
Project renovations	239,040	157,090
Faculty	157,678	-
Lectures and awards	18,898	-
Other	32,093	698,279
	<u>\$ 1,120,846</u>	<u>\$ 1,514,524</u>

**Note 14. Lease Commitments**

The Seminary has various operating leases primarily for office equipment and student housing that expire between 2008 and 2015. Total rental expense under cancelable and noncancelable operating leases was \$1,589,116 and \$1,558,401 for 2008 and 2007, respectively. The Seminary has also entered into a capital lease for office equipment that expires in 2011.

At July 31, 2008, the future minimum lease payments under noncancelable operating leases and capital leases are as follows:

Year	Operating	Capital
2009	\$ 1,660,857	\$ 28,666
2010	1,845,094	28,666
2011	1,780,674	23,889
2012	1,773,949	-
2013	1,773,949	-
Thereafter	1,382,083	-
<b>Total future minimum lease payments</b>	<u><u>\$ 10,216,606</u></u>	<u>81,221</u>

Less amount representing interest (rate at 6.85%)	7,585
<b>Present value of minimum lease obligations</b>	<u>73,636</u>
Less current portion	24,378
<b>Long-term portion of capital lease obligations</b>	<u><u>\$ 49,258</u></u>

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report on the Supplementary Information

To the Board of Trustees  
Southeastern Baptist Theological Seminary, Inc.  
Wake Forest, North Carolina

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information which follows is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the schedule of insurance in force, on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Raleigh, North Carolina  
November 12, 2008

Southeastern Baptist Theological Seminary, Inc.

Statements of Activities Information

Years Ended July 31, 2008 and 2007

Cooperative Program, Southern Baptist Convention	2008	2007
Churches/miscellaneous	\$ 262,996	\$ 285,785
Miscellaneous individuals	9,631	6,771
Alabama	813,708	787,438
Alaska	9,606	9,426
Arizona	37,689	35,315
Arkansas	369,618	347,707
California	98,698	89,224
Colorado	27,163	25,987
Dakota Fellowship	1,561	1,367
District of Columbia	4,961	5,229
Florida	667,384	672,027
Georgia	837,584	858,318
Hawaii	15,128	14,582
Illinois	104,269	106,442
Indiana	43,721	38,089
Iowa	4,388	4,855
Kansas-Nebraska	46,636	41,610
Kentucky	373,759	346,577
Louisiana	331,278	316,353
Maryland-Delaware	83,317	83,052
Michigan	23,249	22,812
Minnesota-Wisconsin	2,530	2,358
Mississippi	504,857	465,651
Missouri	251,931	245,420
Montana Fellowship	4,606	4,342
Nevada	12,535	13,247
New England	5,674	6,066
New Mexico	53,504	49,987
New York	11,116	9,873
North Carolina	441,299	424,487
Northwest	31,709	29,751
Ohio	78,407	74,494
Oklahoma	439,804	421,695
Pennsylvania-South Jersey	9,304	9,317
South Carolina	617,930	552,882
Tennessee	674,721	650,760
Texas, BGCT	570,868	593,088
Texas, SBTC	568,484	497,977
Utah-Idaho	8,113	7,530
Virginia, BGAV	87,236	86,781
Virginia, SBCV	199,636	190,050
West Virginia	21,558	20,035
Wyoming	7,305	6,965
Puerto Rico/U. S. Virgin Islands	214	97
Other	41,662	43,143
Total cooperative program	\$ 8,811,347	\$ 8,504,962

Southeastern Baptist Theological Seminary, Inc.

Insurance In Force (Unaudited)

July 31, 2008

Type	Coinsurance	Amount
Commercial property blanket policy:		
Fire, lightning and extended coverage:		
Buildings and personal property	100%	\$ 96,540,901
Comprehensive crime:		
Employee dishonesty		1,000,000
Forgery or alteration		1,000,000
General liability:		
General aggregate limit		3,000,000
Employee benefits liability		3,000,000
Educators legal liability		1,000,000
Clergyperson professional legal liability		1,000,000
Religious institution's directors and officers' legal liability		1,000,000
Automobile liability and uninsured motorists		1,000,000
Workers' compensation		N.C. Standard
Property floater:		
Data processing breakdown		ACV
Business personal property		ACV
Camera equipment		ACV
Telephone system		ACV
Scheduled property		ACV
Miscellaneous property floater		ACV
Umbrella liability		10,000,000
Trustee travel (per Trustee)		100,000

ACV=Actual cash value

Note: This schedule was prepared from information taken from the policies and does not purport to show all details of the coverage or the adequacy thereof.