

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

Financial Report  
July 31, 2011

**Southeastern Baptist Theological Seminary, Inc. and Subsidiary**

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## Independent Auditor's Report

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

We have audited the accompanying consolidated statements of financial position of Southeastern Baptist Theological Seminary, Inc. and subsidiary (the "Seminary") as of July 31, 2011 and 2010, and the related consolidated 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 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, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Raleigh, North Carolina  
September 16, 2011

**Southeastern Baptist Theological Seminary, Inc. and Subsidiary**

**Consolidated Statements of Financial Position**  
**July 31, 2011 and 2010**

	2011	2010
<b>Assets</b>		
Cash	\$ 6,767,862	\$ 6,454,489
Accounts and notes receivable, less allowance for doubtful accounts 2011 \$132,104; 2010 \$107,538	327,283	355,506
Prepaid expenses and other assets	424,727	381,296
Inventories	11,450	14,259
Investments (Notes 2, 5, and 14)	22,909,940	20,769,737
Assets held for sale (Note 5)	520,000	630,410
Unamortized debt issuance costs	231,139	250,784
Property and equipment, net (Note 3)	39,729,052	41,042,247
Beneficial interests in perpetual trusts (Notes 4 and 5)	2,728,552	2,508,757
<b>Total assets</b>	<b>\$ 73,650,005</b>	<b>\$ 72,407,485</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and other accrued expenses	\$ 734,296	\$ 685,570
Student deposits	763,045	790,971
Deferred student tuition	558,444	537,849
Postretirement benefit liability (Note 7)	7,304,562	6,683,205
Due to donor of remainder trusts and gift annuities	42,519	51,642
Bonds payable (Note 9)	7,170,000	7,550,000
Capital lease obligation	-	23,156
<b>Total liabilities</b>	<b>16,572,866</b>	<b>16,322,393</b>
Commitments and Contingencies (Notes 6, 8, 9, 15, and 16)		
Net assets:		
Unrestricted (Note 10)	30,782,763	30,756,588
Temporarily restricted (Note 11)	10,372,020	9,595,377
Permanently restricted (Note 12)	15,922,356	15,733,127
<b>Total net assets</b>	<b>57,077,139</b>	<b>56,085,092</b>
<b>Total liabilities and net assets</b>	<b>\$ 73,650,005</b>	<b>\$ 72,407,485</b>

See Notes to Consolidated Financial Statements.

# Southeastern Baptist Theological Seminary, Inc. and Subsidiary

## Consolidated Statements of Activities Years Ended July 31, 2011 and 2010

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Gross tuition and fees	\$ 8,613,300	\$ -	\$ -	\$ 8,613,300
Less institutional grants	1,317,540	-	-	1,317,540
	7,295,760	-	-	7,295,760
Sales and services of auxiliary enterprises	4,013,822	-	-	4,013,822
SBC Cooperative Program	7,605,561	-	33,275	7,638,836
Private gifts and bequests	716,496	596,851	349,508	1,662,855
Investment return designated for current operations (Note 2)	280,602	690,452	-	971,054
Total return (loss) on beneficial interests in perpetual trusts	-	410,180	(51,759)	358,421
Other income	340,528	1,071	-	341,599
<b>Total revenues, gains and other support</b>	<b>20,252,769</b>	<b>1,698,554</b>	<b>331,024</b>	<b>22,282,347</b>
Net assets released from program restrictions (Note 13)	1,356,065	(1,356,065)	-	-
Expenses:				
Educational and general:				
Instructional	9,154,912	-	-	9,154,912
Administrative and general	5,683,799	-	-	5,683,799
Operation and maintenance of plant	3,226,601	-	-	3,226,601
<b>Total educational and general</b>	<b>18,065,312</b>	<b>-</b>	<b>-</b>	<b>18,065,312</b>
Auxiliary enterprises	4,316,422	-	-	4,316,422
<b>Total expenses</b>	<b>22,381,734</b>	<b>-</b>	<b>-</b>	<b>22,381,734</b>
<b>Change in net assets from operations</b>	<b>(772,900)</b>	<b>342,489</b>	<b>331,024</b>	<b>(99,387)</b>
Other changes:				
Loss on asset held for sale (Note 5)	-	(66,587)	(43,823)	(110,410)
Reclassification of depreciation previously recorded on asset held for sale (Note 5)	40,707	(40,707)	-	-
Investment return in excess of (less than) amounts designated for current operations (Note 2)	573,493	1,010,912	1,302	1,585,707
Reclassifications due to change in donor restrictions	334,941	(235,667)	(99,274)	-
Reclassification of underwater endowments (Note 14)	233,797	(233,797)	-	-
Changes in postretirement benefit liability other than net periodic postretirement benefit costs (Note 7)	(383,863)	-	-	(383,863)
<b>Change in net assets</b>	<b>26,175</b>	<b>776,643</b>	<b>189,229</b>	<b>992,047</b>
Net assets:				
Beginning	30,756,588	9,595,377	15,733,127	56,085,092
Ending	\$ 30,782,763	\$ 10,372,020	\$ 15,922,356	\$ 57,077,139

See Notes to Consolidated Financial Statements.

2010

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 7,852,809	\$ -	\$ -	\$ 7,852,809
1,378,140	-	-	1,378,140
6,474,669	-	-	6,474,669
3,739,786	-	-	3,739,786
7,928,725	-	137,550	8,066,275
1,108,372	775,321	580,270	2,463,963
490,045	387,423	-	877,468
1,010	342,559	(28,161)	315,408
66,510	-	-	66,510
19,809,117	1,505,303	689,659	22,004,079
1,225,587	(1,225,587)	-	-
9,169,175	-	-	9,169,175
5,720,262	-	-	5,720,262
3,550,752	-	-	3,550,752
18,440,189	-	-	18,440,189
3,824,357	-	-	3,824,357
22,264,546	-	-	22,264,546
(1,229,842)	279,716	689,659	(260,467)
(40,707)	-	-	(40,707)
-	-	-	-
1,409,081	(861,308)	100,033	647,806
351,781	(457,605)	105,824	-
(16,556)	16,556	-	-
(12,183)	-	-	(12,183)
461,574	(1,022,641)	895,516	334,449
30,295,014	10,618,018	14,837,611	55,750,643
\$ 30,756,588	\$ 9,595,377	\$ 15,733,127	\$ 56,085,092

**Southeastern Baptist Theological Seminary, Inc. and Subsidiary**

**Consolidated Statements of Cash Flows**  
**Years Ended July 31, 2011 and 2010**

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	\$ 992,047	\$ 334,449
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	2,005,629	1,826,316
Loss on assets held for sale	110,410	40,707
Change in value of beneficial interest in perpetual trusts	(219,795)	(95,446)
Bad debt expense	37,738	29,134
Realized and unrealized gains on investments	(2,139,928)	(1,100,989)
Gain (loss) on sale or disposal of property and equipment	397	(10,113)
(Increase) decrease in:		
Accounts and notes receivable	(9,515)	(148,579)
Prepaid expenses and other assets	(43,431)	420,413
Inventories	2,809	(874)
Increase (decrease) in:		
Accounts payable and other accrued expenses	48,726	76,979
Student deposits	(27,926)	(83,788)
Postretirement benefit liability	621,357	357,774
Deferred student tuition	20,595	40,372
Interest and dividends restricted for reinvestment	(1,302)	(50,738)
Contributions restricted for long-term purposes	(382,783)	(717,820)
Contributions restricted for property and equipment	(210,820)	(294,156)
<b>Net cash provided by operating activities</b>	<b>804,208</b>	<b>623,641</b>
Cash Flows From Investing Activities		
Proceeds from sale of investments	7,476,920	12,049,199
Purchase of investments	(7,477,195)	(12,659,092)
Purchases of property and equipment	(673,186)	(654,451)
<b>Net cash used in investing activities</b>	<b>(673,461)</b>	<b>(1,264,344)</b>

(Continued)



**Southeastern Baptist Theological Seminary, Inc. and Subsidiary**

**Consolidated Statements of Cash Flows (Continued)**

**Years Ended July 31, 2011 and 2010**

	2011	2010
Cash Flows From Financing Activities		
Proceeds from contributions restricted for:		
Long-term purposes	\$ 382,783	\$ 717,820
Property and equipment	210,820	294,156
Other financing activities:		
Payments on bonds payable	(380,000)	(370,000)
Payments on line of credit	-	(501,387)
Payments on capital lease obligation	(23,156)	(26,101)
Payments to donors of remainder trusts and gift annuities	(9,123)	(2,072)
Interest and dividends restricted for reinvestment	1,302	50,738
<b>Net cash provided by financing activities</b>	<b>182,626</b>	<b>163,154</b>
<b>Net increase (decrease) in cash</b>	<b>313,373</b>	<b>(477,549)</b>
Cash:		
Beginning	6,454,489	6,932,038
Ending	<u>\$ 6,767,862</u>	<u>\$ 6,454,489</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	<u>\$ 19,967</u>	<u>\$ 30,562</u>

See Notes to Consolidated Financial Statements.

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

### **Notes to Consolidated 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.

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

**Principles of consolidation:** The consolidated financial statements include the accounts of Southeastern Baptist Theological Seminary, Inc. and its wholly owned subsidiary, Southeastern Baptist Theological Seminary Foundation, Inc. (the "Foundation"). At July 31, 2009, the Foundation held assets in trust on behalf of a donor through a revocable trust. This was reflected as an asset and corresponding liability on the statement of financial position. These assets were transferred to a third party during the year ended July 31, 2010.

**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 certain financial institutions in amounts that are at times in excess of federal insurance limits. Cash includes temporarily restricted amounts of \$4,707,443 and \$4,909,623 at July 31, 2011 and 2010, 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 amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Notes receivable are carried at the original note amount plus any accrued interest less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines these allowances for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Student accounts receivable and notes receivable are written off when deemed uncollectible. Recoveries of student accounts receivable and notes receivable previously written off are recorded when received.

## Southeastern Baptist Theological Seminary, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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

A student accounts receivable is considered past due if any portion of the receivable balance is outstanding 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.

**Investments:** Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based upon measurements described in Note 5 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.

**Assets held for sale:** Assets held for sale include a building and land which were donated and have been recognized at estimated fair value as contribution revenue in the year of donation. Assets held for sale are reported at the lower of net carrying value or estimated fair value less cost to sell.

**Debt issuance 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 considered 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	40 - 50
Buildings	40 (plus actual life prior to 1993)
Equipment	5 - 10

**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") Accounting Standards Codification ("ASC") 715 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.

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

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

## Southeastern Baptist Theological Seminary, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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

**Functional allocation of expenses:** Expenses are primarily reported in the statement of activities in categories recommended by the National Association of College and University Business Officers. The Seminary's primary program service is instruction. Expenses reported as administrative and general, operation and plant maintenance, and auxiliary enterprises are incurred in support of the primary program service. Certain costs have been allocated, based on management's judgment, to program and supporting activities.

**Fund-raising expenses:** Fund-raising expenses totaled approximately \$403,000 and \$412,000 for the years ended July 31, 2011 and 2010, respectively.

**Contributions and beneficial interests:** Contributions and beneficial interests received, including those from the SBC Cooperative Program, are recognized as revenues at their fair values when they become unconditional. Contributions 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.

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

Management evaluated the Seminary's tax positions and concluded that the Seminary had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of the Income Taxes Topic of the FASB ASC. With few exceptions, the Seminary is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

**Subsequent events:** The Seminary has evaluated its subsequent events (events occurring after July 31, 2011) through September 16, 2011, which represents the date the financial statements were issued.

**Accounting pronouncements issued but not yet adopted:** In January 2010, the FASB released ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements*, which requires new disclosures regarding the reconciliation of Level 3 fair value measurements. Under the new guidance this reconciliation of activity is required to be presented on a gross basis, as opposed to one net number. The guidance of ASU 2010-06 related to the Level 3 reconciliation is effective for annual periods beginning after December 15, 2010. The guidance of ASU 2010-06 is effective for the Seminary's fiscal year ending July 31, 2012. The Seminary does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In May 2011, the FASB released ASU 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*, to converge the fair value measurement guidance in GAAP and International Financial Reporting Standards ("IFRS"). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition ASU 2011-04 requires additional fair value disclosures. The guidance of ASU 2011-04 is effective for annual periods beginning after December 15, 2011. This guidance is effective for the Seminary's fiscal year ending July 31, 2013. The Seminary does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

# Southeastern Baptist Theological Seminary, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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

**Reclassifications:** Certain amounts on the financial statements for 2010 have been reclassified, with no effect on net assets or the change in net assets, to be consistent with the classifications adopted for 2011.

### Note 2. Investments

Investments at July 31, 2011 and 2010 consist of the following:

	2011		
	Cost	Net Unrealized Gains	Fair Value
Short-term cash investments	\$ 690,715	\$ -	\$ 690,715
Privately held common stock	1,406,886	-	1,406,886
Equities funds	9,953,784	2,670,973	12,624,757
Fixed income securities	4,048,529	320,958	4,369,487
Mortgage notes receivable	3,686,660	131,435	3,818,095
	<u>\$ 19,786,574</u>	<u>\$ 3,123,366</u>	<u>\$ 22,909,940</u>
	2010		
	Cost	Net Unrealized Gains	Fair Value
Short-term cash investments	\$ 1,390,544	\$ -	\$ 1,390,544
Privately held common stock	1,406,886	-	1,406,886
Equities funds	9,638,615	612,847	10,251,462
Fixed income securities	3,613,495	767,379	4,380,874
Mortgage notes receivable	3,250,647	89,324	3,339,971
	<u>\$ 19,300,187</u>	<u>\$ 1,469,550</u>	<u>\$ 20,769,737</u>

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

## Southeastern Baptist Theological Seminary, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

#### Note 2. Investments (Continued)

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

2011				
	Unrestricted	Temporarily	Permanently	
	Net Assets	Restricted	Restricted	Total
	Net Assets	Net Assets	Net Assets	
Dividends and interest, net of expenses	\$ 150,967	\$ 264,564	\$ 1,302	\$ 416,833
Net change in unrealized appreciation	568,834	1,084,982	-	1,653,816
Net realized gains	134,294	351,818	-	486,112
<b>Total return on investments</b>	<b>854,095</b>	<b>1,701,364</b>	<b>1,302</b>	<b>2,556,761</b>
Investment return designated for current operations	280,602	690,452	-	971,054
<b>Investment return in excess of amounts designated for current operations</b>	<b>\$ 573,493</b>	<b>\$ 1,010,912</b>	<b>\$ 1,302</b>	<b>\$ 1,585,707</b>

  

2010				
	Unrestricted	Temporarily	Permanently	
	Net Assets	Restricted	Restricted	Total
	Net Assets	Net Assets	Net Assets	
Dividends and interest, net of expenses	\$ 238,762	\$ 134,785	\$ 50,738	\$ 424,285
Net change in unrealized appreciation	220,943	418,033	174,785	813,761
Net realized gains (losses)	1,439,421	(1,026,703)	(125,490)	287,228
<b>Total return (loss) on investments</b>	<b>1,899,126</b>	<b>(473,885)</b>	<b>100,033</b>	<b>1,525,274</b>
Investment return designated for current operations	490,045	387,423	-	877,468
<b>Investment return in excess of (less than) amounts designated for current operations</b>	<b>\$ 1,409,081</b>	<b>\$ (861,308)</b>	<b>\$ 100,033</b>	<b>\$ 647,806</b>

Investment expenses for the years ended July 31, 2011 and 2010 were \$155,627 and \$155,109, respectively.

#### Note 3. Property and Equipment

Property and equipment at July 31, 2011 and 2010 consisted of the following:

	2011	2010
Land	\$ 559,506	\$ 559,506
Land improvements	2,117,244	2,100,690
Buildings	49,632,562	49,312,726
Equipment	7,871,079	7,562,256
Construction in progress	98,979	152,413
	<b>60,279,370</b>	<b>59,687,591</b>
Less accumulated depreciation	20,550,318	18,645,344
	<b>\$ 39,729,052</b>	<b>\$ 41,042,247</b>

## Southeastern Baptist Theological Seminary, Inc. and Subsidiary

### Notes to Consolidated 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. Fair Value Measurements**

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

The fair value hierarchy is as follows:

**Level 1 Inputs:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

**Level 2 Inputs:** Inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, discount values, volatilities, prepayment spreads, credit risks, etc.), or inputs that are derived principally from or corroborated by market data correlation or other means.

**Level 3 Inputs:** Unobservable inputs for determining the fair values of assets or liabilities that would reflect an entity's own determination about the assumptions that market participants would use in pricing the assets or liabilities.

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

#### **Investments:**

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

**Common stocks and equities funds:** Equity securities and equity mutual funds listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy. The Seminary holds shares of stock in a privately held company, which is classified within Level 3 of the valuation hierarchy.

# Southeastern Baptist Theological Seminary, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

### Note 5. Fair Value Measurements (Continued)

**Fixed income securities:** Investments in fixed income securities include domestic and foreign corporate bonds and government and agency obligation bonds that are either exchange-traded and/or valued at last sales price. If there is no sale and the market is considered active, the securities are valued at the mean of the last bid and asked prices on such exchange. These fixed income securities are classified within Level 2 of the valuation hierarchy.

**Mortgage notes receivable:** Investments in mortgage notes receivable securities include mortgage backed securities and other collateralized mortgage obligations that are either exchange-traded and/or valued at last sales price. If there is no sale and the market is considered active, the securities are valued at the mean of the last bid and asked prices on such exchange. These mortgage notes receivable are classified within Level 2 of the valuation hierarchy.

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

**Assets held for sale:** The fair value of assets held for sale is categorized as Level 3 in the fair value hierarchy as the Seminary does not have access to quoted market prices. The fair value was determined using data including, but not limited to, comparable sales of similar assets.

The following tables summarize financial assets and financial liabilities measured at fair value on a recurring basis by classification within the fair value hierarchy as of July 31, 2011 and 2010:

2011				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Investments:				
Short-term cash investments	\$ -	\$ 690,715	\$ -	\$ 690,715
Privately held common stock	-	-	1,406,886	1,406,886
Equities funds:				
US Large Cap	2,932,268	-	-	2,932,268
US Mid Cap	2,444,082	-	-	2,444,082
US Small Cap	2,489,004	-	-	2,489,004
Emerging Markets	778,611	-	-	778,611
Developed Markets	3,980,792	-	-	3,980,792
<b>Total equities</b>	<b>12,624,757</b>	<b>-</b>	<b>-</b>	<b>12,624,757</b>
Fixed income securities:				
US Government and agencies	-	1,248,316	-	1,248,316
Corporate	-	3,121,171	-	3,121,171
<b>Total fixed income securities</b>	<b>-</b>	<b>4,369,487</b>	<b>-</b>	<b>4,369,487</b>
Mortgage notes receivable	-	3,818,095	-	3,818,095
	<b>12,624,757</b>	<b>8,878,297</b>	<b>1,406,886</b>	<b>22,909,940</b>
Beneficial interest in perpetual trusts	-	-	2,728,552	2,728,552
<b>Total financial assets</b>	<b>\$ 12,624,757</b>	<b>\$ 8,878,297</b>	<b>\$ 4,135,438</b>	<b>\$ 25,638,492</b>



# Southeastern Baptist Theological Seminary, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

### Note 5. Fair Value Measurements (Continued)

	2010			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets</b>				
Investments:				
Short-term cash investments	\$ -	\$ 1,390,544	\$ -	\$ 1,390,544
Privately held common stock	-	-	1,406,886	1,406,886
Equities funds:				
US Large Cap	1,467,799	-	-	1,467,799
US Mid Cap	2,205,557	-	-	2,205,557
US Small Cap	2,578,005	-	-	2,578,005
Emerging Markets	784,110	-	-	784,110
Developed Markets	3,215,991	-	-	3,215,991
<b>Total equities</b>	10,251,462	-	-	10,251,462
Fixed income securities:				
US Government and agencies	-	1,134,399	-	1,134,399
Corporate	-	3,246,475	-	3,246,475
<b>Total fixed income securities</b>	-	4,380,874	-	4,380,874
Mortgage notes receivable	-	3,339,971	-	3,339,971
	10,251,462	9,111,389	1,406,886	20,769,737
Beneficial interest in perpetual trusts	-	-	2,508,757	2,508,757
<b>Total financial assets</b>	\$ 10,251,462	\$ 9,111,389	\$ 3,915,643	\$ 23,278,494

The following table reconciles the beginning and ending balances of financial assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended July 31, 2011 and 2010:

	Beneficial Interests in Perpetual Trusts
Beginning balance, August 1, 2009	\$ 2,419,876
Expenses	(33,472)
Distributions from perpetual trusts	(34,602)
Return on investments held by perpetual trusts	156,955
Ending balance, July 31, 2010	2,508,757
Contributions	31,572
Expenses	(41,227)
Distributions from perpetual trusts	(167,093)
Return on investments held by perpetual trusts	396,543
Ending balance, July 31, 2011	\$ 2,728,552

## Southeastern Baptist Theological Seminary, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

#### Note 5. Fair Value Measurements (Continued)

Certain assets are measured at fair value on a nonrecurring basis in accordance with ASC 820 (for example, when there is evidence of impairment). The following tables summarize financial assets measured at fair value on a nonrecurring basis by classification within the fair value hierarchy as of July 31, 2011 and 2010:

		Assets held for sale			
	Total	Level 1	Level 2	Level 3	
Fair value at July 31, 2011	\$ 520,000	\$ -	\$ -	\$ 520,000	
Fair value at July 31, 2010	630,410	-	-	630,410	

For the years ended July 31, 2011 and 2010, assets held for sale were written down to their fair values resulting in losses of \$110,410 and \$40,707, respectively.

#### Note 6. 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 2011 and 2010 was \$777,901 and \$768,236, respectively.

#### Note 7. Postretirement Benefits

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.

Net periodic postretirement benefit costs recognized as expenses included the following components for the years ended July 31, 2011 and 2010:

	2011	2010
Service cost-benefits attributable to service during the year	\$ 190,025	\$ 269,627
Interest on accumulated postretirement benefit obligation	348,064	382,733
Amortization of unrecognized transition obligation	129,060	129,060
	<u>\$ 667,149</u>	<u>\$ 781,420</u>

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, 2011 and 2010:

	2011	2010
Benefit obligation at beginning of year	\$ 6,683,205	\$ 6,325,431
Service cost-benefits attributable to service during the year	190,025	269,627
Interest on accumulated postretirement benefit obligation	348,064	382,733
Benefits paid by the Seminary	(300,595)	(306,769)
Actuarial (gain) loss	194,919	(407,224)
Effect of change in discount rate assumption	140,365	575,305
Effect of change in mortality, withdrawal, and trend assumptions	48,579	(155,898)
Benefit obligation at end of year	<u>\$ 7,304,562</u>	<u>\$ 6,683,205</u>

# Southeastern Baptist Theological Seminary, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

### Note 7. Postretirement Benefits (Continued)

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, 2011 and 2010 but which have been reflected as a reduction to unrestricted net assets, apart from expenses, on the accompanying consolidated statement of activities for the years ended July 31, 2011 and 2010:

	2011	2010
Net transition obligation	\$ 500,680	\$ 629,740
Net experience losses	745,494	361,631
	<u>\$ 1,246,174</u>	<u>\$ 991,371</u>

The following amounts included in accumulated postretirement benefit obligation at July 31, 2011 and 2010 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 in 2012:

	2012
Amortization of unrecognized transition obligation	\$ 129,060
Net experience losses	1,253

For measurement purposes, an 8.75% annual rate of increase in per capita health care costs of covered benefits was assumed for 2011 and 2010, with such annual rate of increase gradually declining to 5.0% by 2016. If assumed health care cost trend rates were increased by 1 percentage point in each year, the accumulated postretirement benefit obligation at July 31, 2011 and 2010 would be increased by approximately \$131,713 (1.80%) and \$145,076 (2.43%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2011 and 2010 would be increased by approximately \$12,062 (2.24%) and \$13,118 (2.23%), 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, 2011 and 2010 would be decreased by approximately \$118,473 (1.62%) and \$130,005 (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, 2011 and 2010 would be decreased by approximately \$10,527 (1.96%) and \$11,211 (1.91%), respectively.

The weighted average discount rate used in estimating the benefit obligation and net periodic benefit cost at July 31, 2011 and 2010 was 5.05% and 5.20%, 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
2012	\$ 376,893
2013	375,370
2014	390,548
2015	391,595
2016	422,655
2017 - 2021	2,364,352

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

### **Notes to Consolidated Financial Statements**

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#### **Note 8. Line of Credit**

At July 31, 2011 and 2010, 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 were at LIBOR plus 1.85%, not to decrease below a minimum rate of 3%, and require monthly interest payments. There were no outstanding borrowings under the line of credit agreement at July 31, 2011 and 2010. Total interest expense for the years ended July 31, 2011 and 2010 was \$18,175 and \$28,091, of which \$0 and \$4,512 related to the line of credit, respectively. The outstanding balance and all accrued but unpaid interest will be due on February 12, 2012. The loan agreement associated with the line of credit 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 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 0.25% at July 31, 2011 (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, 2011 and 2010 were \$7,170,000 and \$7,550,000, respectively. Total interest expense for the years ended July 31, 2011 and 2010 was \$18,175 and \$28,091, of which \$18,175 and \$20,423 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, 2013, 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. As long as the bonds remain outstanding, the Seminary must comply with a negative pledge agreement that it will not sell, assign, pledge, encumber or otherwise transfer any right, title or interest which it may have in and to any real property without prior written consent from the bank.

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 holders of any weekly rate bonds may elect to tender, at their option, subject to certain conditions, any such bond for purchase at a price equal to the principal amount plus accrued and unpaid interest. In the event of optional tenders of such bonds, the Remarketing Agent will use its best efforts to remarket such bonds in accordance with its agreement with the Seminary.

## Southeastern Baptist Theological Seminary, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 9. Bonds Payable (Continued)

Principal maturities anticipated by the Seminary, assuming any tendered bonds are remarketed and the letter of credit is renewed over the original term of the bonds, are as follows:

Year Ending July 31,	Amount
2012	\$ 395,000
2013	410,000
2014	425,000
2015	445,000
2016	460,000
Thereafter	5,035,000
	<u>\$ 7,170,000</u>

#### Note 10. Unrestricted Net Assets

Unrestricted net assets include board-designated amounts for endowment purposes at July 31, 2011 and 2010 of \$5,766,024 and \$5,022,904, respectively. These amounts are impacted by investment return and appropriations subsequent to designation.

#### Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets as of July 31, 2011 and 2010 are available for the following purposes:

	2011	2010
Purposes restrictions:		
Scholarships	\$ 4,400,001	\$ 4,531,842
Project renovations	2,462,259	2,402,612
Faculty	1,670,808	1,365,854
Institutional support	817,322	610,600
Lectures and awards	268,119	240,429
Library	218,173	207,343
Remainder trusts	163,716	-
Other	371,622	236,697
	<u>\$ 10,372,020</u>	<u>\$ 9,595,377</u>

## Southeastern Baptist Theological Seminary, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 12. Permanently Restricted Net Assets

Permanently restricted net assets at July 31, 2011 and 2010 are restricted to:

	2011	2010
Investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 6,325,960	\$ 6,210,762
Faculty	6,044,547	6,006,640
Institutional support	2,747,874	2,736,549
Lectures and awards	361,606	360,378
Library	275,575	272,344
Plant maintenance	166,794	146,454
	<u>\$ 15,922,356</u>	<u>\$ 15,733,127</u>

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

Net assets during the years ended July 31, 2011 and 2010 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

	2011	2010
Purpose restrictions accomplished:		
Scholarships	\$ 835,979	\$ 577,176
Faculty	153,286	65,407
Project renovations	109,053	328,671
Lectures and awards	11,262	9,278
Other	246,485	245,055
	<u>\$ 1,356,065</u>	<u>\$ 1,225,587</u>

#### Note 14. Endowment Funds

The Seminary's endowment funds consist of over 300 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, 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 Seminary's Board of Trustees has interpreted the North Carolina enacted version of UPMIFA ("NCUPMIFA") 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 as permanently restricted net assets (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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Seminary in a manner consistent with the standard of prudence prescribed by NCUPMIFA. In accordance with NCUPMIFA, the Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

### **Notes to Consolidated Financial Statements**

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#### **Note 14. Endowment Funds (Continued)**

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

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

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

The Seminary's Board of Trustees authorizes endowment expenditures at the time it approves the annual fiscal year's operating budget based upon the endowment earnings available at that time, consistent with the Seminary's endowment spending policy. The actual expenditure of these appropriations occurs at various times during the fiscal year for which they are appropriated. From time to time, the fair value of assets associated with the donor restricted endowment funds may fall below the level that the donor or NCUPMIFA requires the Seminary to retain as a fund of perpetual duration. At July 31, 2011 and 2010, the aggregate amount that the fair values of these endowments was below the donor or NCUPMIFA required levels was \$85,908 and \$319,705, respectively, and are reported within unrestricted net assets. These deficiencies are generally due to unfavorable market fluctuations that occurred within the Seminary's investment portfolio. During the years ended July 31, 2011 and 2010, appropriations of \$13,440 and \$100,033, respectively, were made on funds with deficiencies.

# Southeastern Baptist Theological Seminary, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

### Note 14. Endowment Funds (Continued)

The following table summarizes changes in endowment net assets for the years ended July 31, 2011 and 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, August 1, 2009	\$ 2,971,282	\$ 3,314,058	\$ 12,478,371	\$ 18,763,711
Contributions	-	-	717,820	717,820
Interest, other investment income, net of expenses, and realized and unrealized gains (losses)	1,899,126	(473,885)	100,033	1,525,274
Appropriations of endowment assets for expenditure	(490,045)	(387,423)	-	(877,468)
Designation of quasi-endowment assets	339,392	-	-	339,392
Reclassification due to change in donor restrictions	-	(105,824)	105,824	-
Net asset reclassification of underwater endowments	(16,556)	16,556	-	-
Endowment net assets, July 31, 2010	4,703,199	2,363,482	13,402,048	20,468,729
Contributions	-	-	351,211	351,211
Interest, other investment income, net of expenses, and realized and unrealized gains (losses), and other gains (losses)	854,095	1,701,364	(42,521)	2,512,938
Appropriations of endowment assets for expenditure	(280,602)	(690,452)	-	(971,054)
Designation of quasi-endowment assets	169,627	-	-	169,627
Reclassification due to change in donor restrictions	-	99,274	(99,274)	-
Net asset reclassification of underwater endowments	233,797	(233,797)	-	-
Endowment net assets, July 31, 2011	<u>\$ 5,680,116</u>	<u>\$ 3,239,871</u>	<u>\$ 13,611,464</u>	<u>\$ 22,531,451</u>



# Southeastern Baptist Theological Seminary, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

### Note 14. Endowment Funds (Continued)

The following tables summarize the composition of endowment net assets by fund type on July 31, 2011 and 2010:

2011				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Faculty	\$ -	\$ 1,004,739	\$ 6,044,547	\$ 7,049,286
Scholarships	(74,463)	1,708,871	4,981,070	6,615,478
Institutional support	-	293,040	1,781,872	2,074,912
Lectures and awards	(2,665)	133,722	361,606	492,663
Library	(8,780)	88,305	275,575	355,100
Plant maintenance	-	11,194	166,794	177,988
	(85,908)	3,239,871	13,611,464	16,765,427
Board designated endowment funds	5,766,024	-	-	5,766,024
<b>Total endowment net assets</b>	<b>\$ 5,680,116</b>	<b>\$ 3,239,871</b>	<b>\$ 13,611,464</b>	<b>\$ 22,531,451</b>
2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Faculty	\$ -	\$ 564,029	\$ 6,007,328	\$ 6,571,357
Scholarships	(53,023)	1,465,605	4,845,572	6,258,154
Institutional support	-	158,676	1,769,883	1,928,559
Lectures and awards	(8,493)	125,309	360,420	477,236
Library	-	115,820	272,376	388,196
Plant maintenance	-	4,221	146,469	150,690
Other	(258,189)	(70,178)	-	(328,367)
	(319,705)	2,363,482	13,402,048	15,445,825
Board designated endowment funds	5,022,904	-	-	5,022,904
<b>Total endowment net assets</b>	<b>\$ 4,703,199</b>	<b>\$ 2,363,482</b>	<b>\$ 13,402,048</b>	<b>\$ 20,468,729</b>

## Southeastern Baptist Theological Seminary, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 15. Lease Commitments

The Seminary has various operating leases primarily for office equipment and student housing that expire between 2012 and 2015. Total rental expense under cancelable and noncancelable operating leases was \$1,882,573 and \$1,855,513 for 2011 and 2010, respectively.

At July 31, 2011, the future minimum lease payments under noncancelable operating leases are as follows:

Year Ending July 31,	
2012	\$ 1,878,026
2013	1,870,422
2014	1,409,667
2015	208,368
	<u>\$ 5,366,483</u>

#### Note 16. Contingencies

In accordance with the Asset Retirement and Environmental Obligations Topic of the FASB ASC (ASC 410-20), the Seminary has identified several facilities that have conditional retirement obligations related to asbestos abatement. The Seminary has not recorded a liability for these conditional asset retirement obligations due to the Seminary being unable to reasonably estimate the fair value of the liability. Fair value of such a liability could not be reasonably estimated as the Seminary has not specified plans that would require abatement of the asbestos and, therefore, settlement dates for these conditional asset retirement obligations are not known nor can they be reasonably estimated.



**Independent Auditor's Report  
on the Supplementary Information**

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

Our audits were made for the purpose of forming an opinion on the basic consolidated 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 consolidated 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 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Raleigh, North Carolina  
September 16, 2011

**Southeastern Baptist Theological Seminary, Inc. and Subsidiary**

**Statements of Activities Information**  
**Years Ended July 31, 2011 and 2010**

<b>Cooperative Program, Southern Baptist Convention</b>	<b>2011</b>	<b>2010</b>
Churches/miscellaneous	\$ 200,706	\$ 208,991
Miscellaneous individuals	16,753	5,367
Alabama	716,401	745,589
Alaska	8,979	9,904
Arizona	31,610	35,891
Arkansas	341,983	352,653
California	76,004	83,379
Colorado	23,115	20,159
Dakota Fellowship	1,641	1,675
District of Columbia	1,551	1,314
Florida	503,799	542,659
Georgia	675,492	755,581
Hawaii	15,155	15,142
Illinois	96,645	102,780
Indiana	36,874	43,561
Iowa	3,987	4,401
Kansas-Nebraska	23,852	31,919
Kentucky	339,600	346,190
Louisiana	321,509	311,805
Maryland-Delaware	71,251	74,119
Michigan	19,466	15,157
Minnesota-Wisconsin	2,320	2,393
Mississippi	451,882	463,863
Missouri	216,911	230,401
Montana Fellowship	3,948	4,085
Nevada	10,561	11,142
New England	4,483	5,505
New Mexico	42,885	48,254
New York	8,752	9,384
North Carolina	415,196	412,144
Northwest	26,257	27,014
Ohio	68,376	67,951
Oklahoma	413,666	383,377
Pennsylvania-South Jersey	8,077	8,878
South Carolina	473,258	540,230
Tennessee	590,550	600,728
Texas, BGCT	476,609	517,713
Texas, SBTC	555,814	569,198
Utah-Idaho	7,049	7,273
Virginia, BGAV	77,106	75,702
Virginia, SBCV	173,873	183,859
West Virginia	19,328	19,846
Wyoming	6,702	6,892
Puerto Rico/U. S. Virgin Islands	262	204
Other	58,598	162,003
<b>Total cooperative program</b>	<b>\$ 7,638,836</b>	<b>\$ 8,066,275</b>

**Southeastern Baptist Theological Seminary, Inc. and Subsidiary**

**Insurance In Force (Unaudited)  
July 31, 2011**

<b>Type</b>	<b>Coinsurance</b>	<b>Amount</b>
Commercial property blanket policy:		
Fire, lightning and extended coverage:		
Buildings and personal property	<b>100%</b>	<b>\$106,629,151</b>
Comprehensive crime:		
Employee dishonesty		<b>1,000,000</b>
Forgery or alteration		<b>1,000,000</b>
General liability:		
General aggregate limit		<b>3,000,000</b>
Employee benefits liability		<b>3,000,000</b>
Educators legal liability		<b>1,000,000</b>
Clergyperson professional legal liability		<b>1,000,000</b>
Religious institution's directors and officers' legal liability		<b>1,000,000</b>
Automobile liability and uninsured motorists		<b>1,000,000</b>
Workers' compensation		<b>N.C. Standard</b>
Property floater:		
Data processing breakdown		<b>ACV</b>
Business personal property		<b>ACV</b>
Camera equipment		<b>ACV</b>
Telephone system		<b>ACV</b>
Scheduled property		<b>ACV</b>
Miscellaneous property floater		<b>ACV</b>
Umbrella liability		<b>10,000,000</b>
Trustee travel (per Trustee)		<b>100,000</b>

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.