

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Financial Report
July 31, 2012

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, 2012 and 2011, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Seminary's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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 opinions.

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, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2012 on our consideration of the Seminary's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

A handwritten signature in black ink that reads 'McGladrey LLP'.

Raleigh, North Carolina
October 16, 2012

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Consolidated Statements of Financial Position
July 31, 2012 and 2011**

	2012	2011
Assets		
Cash	\$ 8,901,982	\$ 6,767,862
Accounts and notes receivable, less allowance for doubtful accounts 2012 \$141,296; 2011 \$132,104	434,964	327,283
Prepaid expenses and other assets	314,288	436,177
Investments (Notes 2, 5, and 14)	22,379,353	22,909,940
Assets held for sale (Note 5)	20,000	520,000
Unamortized debt issuance costs	211,494	231,139
Property and equipment, net (Note 3)	38,905,063	39,729,052
Beneficial interests in split-interest agreements (Notes 4 and 5)	2,710,902	2,686,033
Total assets	\$ 73,878,046	\$ 73,607,486
Liabilities and Net Assets		
Accounts payable and other accrued expenses	\$ 811,444	\$ 734,296
Student deposits	746,795	763,045
Deferred revenue	711,887	558,444
Postretirement benefit liability (Note 7)	9,511,254	7,304,562
Bonds payable (Note 9)	6,775,000	7,170,000
Capital lease obligation (Note 15)	340,517	-
Total liabilities	18,896,897	16,530,347
Commitments and Contingencies (Notes 6, 7, 8, 9, 15, and 16)		
Net assets (Note 14)		
Unrestricted (Note 10)	29,115,704	30,782,763
Temporarily restricted (Note 11)	9,512,321	10,372,020
Permanently restricted (Note 12)	16,353,124	15,922,356
Total net assets	54,981,149	57,077,139
Total liabilities and net assets	\$ 73,878,046	\$ 73,607,486

See Notes to Consolidated Financial Statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Consolidated Statements of Activities
Years Ended July 31, 2012 and 2011**

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Gross tuition and fees	\$ 10,044,177	\$ -	\$ -	\$ 10,044,177
Less institutional grants	1,137,451	-	-	1,137,451
	8,906,726	-	-	8,906,726
Sales and services of auxiliary enterprises	4,178,964	-	-	4,178,964
SBC Cooperative Program	7,743,301	-	-	7,743,301
Private gifts and bequests	803,167	415,851	330,748	1,549,766
Investment return designated for current operations (Note 2)	238,252	718,206	-	956,458
Distributions received from beneficial interests in split-interest agreements (Note 5)	-	119,425	-	119,425
Other income	441,936	9,044	-	450,980
Total revenues, gains and other support	22,312,346	1,262,526	330,748	23,905,620
Net assets released from program restrictions (Note 13)	1,233,429	(1,233,429)	-	-
Expenses:				
Educational and general:				
Instruction	9,332,450	-	-	9,332,450
Administrative and general	6,444,398	-	-	6,444,398
Operation and maintenance of plant	2,561,353	-	-	2,561,353
Total educational and general	18,338,201	-	-	18,338,201
Auxiliary enterprises	4,753,639	-	-	4,753,639
Total expenses	23,091,840	-	-	23,091,840
Change in net assets from operations	453,935	29,097	330,748	813,780
Other changes:				
Loss on asset held for sale (Note 5)	(8,317)	(114,804)	(28,701)	(151,822)
Reclassification of depreciation previously recorded on asset held for sale	-	-	-	-
Investment return in excess of (less than) amounts designated for current operations (Note 2)	(223,605)	(685,379)	-	(908,984)
Gifts of beneficial interests in split-interest agreements (Note 5)	3,451	-	172,419	175,870
Change in value of beneficial interests in split-interest agreements (Note 5)	-	(107,303)	(43,698)	(151,001)
Reclassifications due to change in donor restrictions	-	-	-	-
Reclassification of underwater endowments (Note 14)	(18,690)	18,690	-	-
Changes in postretirement benefit liability other than net periodic postretirement benefit costs (Note 7)	(1,873,833)	-	-	(1,873,833)
Change in net assets	(1,667,059)	(859,699)	430,768	(2,095,990)
Net assets:				
Beginning	30,782,763	10,372,020	15,922,356	57,077,139
Ending	\$ 29,115,704	\$ 9,512,321	\$ 16,353,124	\$ 54,981,149

See Notes to Consolidated Financial Statements.

2011

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 8,613,300	\$ -	\$ -	\$ 8,613,300
1,317,540	-	-	1,317,540
7,295,760	-	-	7,295,760
4,013,822	-	-	4,013,822
7,605,561	-	32,874	7,638,435
710,573	596,851	351,211	1,658,634
280,602	690,452	-	971,054
-	164,402	-	164,402
401,868	17,724	-	419,592
20,308,186	1,469,429	384,085	22,161,700
1,356,065	(1,356,065)	-	-
8,856,874	-	-	8,856,874
5,981,837	-	-	5,981,837
2,826,658	-	-	2,826,658
17,665,369	-	-	17,665,369
4,716,365	-	-	4,716,365
22,381,734	-	-	22,381,734
(717,483)	113,364	384,085	(220,034)
-	(66,587)	(43,823)	(110,410)
40,707	(40,707)	-	-
512,153	1,010,912	-	1,523,065
5,923	-	-	5,923
-	229,125	(51,759)	177,366
334,941	(235,667)	(99,274)	-
233,797	(233,797)	-	-
(383,863)	-	-	(383,863)
26,175	776,643	189,229	992,047
30,756,588	9,595,377	15,733,127	56,085,092
\$ 30,782,763	\$ 10,372,020	\$ 15,922,356	\$ 57,077,139

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended July 31, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	\$ (2,095,990)	\$ 992,047
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	1,967,632	1,969,785
Loss on assets held for sale	151,822	110,410
Change in value of beneficial interests in split-interest agreements	151,001	(177,366)
Gifts of beneficial interests in split-interest agreements	(175,870)	-
Bad debt expense	15,749	37,738
Realized and unrealized (gains) losses on investments	377,017	(2,155,636)
Loss on sale or disposal of property and equipment	104	397
(Increase) decrease in:		
Accounts and notes receivable	(123,430)	(9,515)
Prepaid expenses and other assets	121,889	(40,622)
Increase (decrease) in:		
Accounts payable and other accrued expenses	77,148	48,726
Student deposits	(16,250)	(27,926)
Postretirement benefit liability	2,206,692	621,357
Deferred revenue	153,443	20,595
Contributions restricted for long-term purposes	(330,748)	(382,783)
Contributions restricted for property and equipment	(109,061)	(210,820)
Net cash provided by operating activities	2,371,148	796,387
Cash Flows From Investing Activities		
Proceeds from sale of investments	14,422,059	7,476,920
Purchase of investments	(14,268,489)	(7,477,195)
Proceeds from sale of asset held for sale	348,178	-
Purchases of property and equipment	(759,519)	(673,186)
Net cash used in investing activities	(257,771)	(673,461)

(Continued)

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)

Years Ended July 31, 2012 and 2011

	2012	2011
Cash Flows From Financing Activities		
Proceeds from contributions restricted for:		
Long-term purposes	\$ 330,748	\$ 382,783
Property and equipment	109,061	210,820
Other financing activities:		
Payments on bonds payable	(395,000)	(380,000)
Payments on capital lease obligation	(24,066)	(23,156)
Net cash provided by financing activities	20,743	190,447
Net increase in cash	2,134,120	313,373
Cash:		
Beginning	6,767,862	6,454,489
Ending	\$ 8,901,982	\$ 6,767,862
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$ 21,650	\$ 19,697
Supplemental Disclosures of Noncash Investing and Financing Activities		
Capital lease obligations incurred for use of equipment	\$ 364,583	\$ -

See Notes to Consolidated Financial Statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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).

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 \$5,200,593 and \$4,707,443 at July 31, 2012 and 2011, 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

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 placed on nonaccrual status and accrual of interest is suspended.

Investments: Investments in debt and equity 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. The building was sold during the year ended July 31, 2012 as described in Note 5.

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. 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

Assets under capital lease are amortized using the straight-line method over the shorter of the asset's estimated useful life or lease term with amortization expense being incurred with depreciation expense.

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

Postretirement benefits: The Seminary provides certain postretirement benefits, including 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.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

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

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

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 \$463,000 and \$403,000 for the years ended July 31, 2012 and 2011, 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 2009.

Subsequent events: The Seminary has evaluated its subsequent events (events occurring after July 31, 2012) through October 16, 2012, which represents the date the financial statements were available to be issued.

Accounting pronouncements issued and adopted: In January 2010, the FASB released Accounting Standards Updated (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 was adopted by the Seminary in 2012. The adoption of this guidance did not have a significant effect on the Seminary's 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)

Accounting pronouncements issued but not yet adopted: In May 2011 the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which aligns disclosures related to fair value between U.S. GAAP and International Financial Reporting Standards. The ASU includes changes to the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and changes to the disclosure of information about fair value measurements. More specifically, the changes clarify the intent of the FASB regarding the application of existing fair value measurements and disclosures as well as changing some particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. This ASU is effective for the Seminary's year ending July 31, 2013. The Seminary does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

Reclassifications: Certain amounts on the financial statements for 2011 have been reclassified, with no effect on net assets or the change in net assets, to be consistent with the classifications adopted for 2012.

Note 2. Investments

Investments at July 31, 2012 and 2011 consist of the following:

	2012		
	Cost	Net Unrealized Gains	Fair Value
Short-term cash investments	\$ 858,717	\$ -	\$ 858,717
Privately held common stock	1,406,886	-	1,406,886
Equities	4,643,426	488,005	5,131,431
Fixed income securities	3,351,977	151,413	3,503,390
Mutual funds	5,063,716	900,663	5,964,379
Exchange-traded funds	1,967,854	233,849	2,201,703
Mortgage-backed securities	3,144,531	168,316	3,312,847
	<u>\$ 20,437,107</u>	<u>\$ 1,942,246</u>	<u>\$ 22,379,353</u>
	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	5,445,080	1,059,996	6,505,076
Fixed income securities	2,577,141	118,237	2,695,378
Mutual funds	4,241,489	1,471,505	5,712,994
Exchange-traded funds	1,719,322	361,474	2,080,796
Mortgage-backed securities	3,686,660	131,435	3,818,095
	<u>\$ 19,767,293</u>	<u>\$ 3,142,647</u>	<u>\$ 22,909,940</u>

The Seminary invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, any significant changes in risks in the near term could materially affect the Seminary's investment balance reported in the consolidated 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 for the years ended July 31, 2012 and 2011:

2012				
	Unrestricted	Temporarily	Permanently	
	Net Assets	Restricted	Restricted	Total
	Net Assets	Net Assets	Net Assets	
Dividends and interest, net of expenses	\$ 107,614	\$ 316,877	\$ -	\$ 424,491
Net unrealized depreciation	(302,138)	(898,263)	-	(1,200,401)
Net realized gains	209,171	614,213	-	823,384
Total return on investments	14,647	32,827	-	47,474
Investment return designated for current operations	238,252	718,206	-	956,458
Investment return less than amounts designated for current operations	\$ (223,605)	\$ (685,379)	\$ -	\$ (908,984)

2011				
	Unrestricted	Temporarily	Permanently	
	Net Assets	Restricted	Restricted	Total
	Net Assets	Net Assets	Net Assets	
Dividends and interest, net of expenses	\$ 89,627	\$ 248,856	\$ -	\$ 338,483
Net unrealized appreciation	568,834	1,100,690	-	1,669,524
Net realized gains	134,294	351,818	-	486,112
Total return on investments	792,755	1,701,364	-	2,494,119
Investment return designated for current operations	280,602	690,452	-	971,054
Investment return in excess of amounts designated for current operations	\$ 512,153	\$ 1,010,912	\$ -	\$ 1,523,065

Investment expenses for the years ended July 31, 2012 and 2011 were \$159,014 and \$155,627, respectively.

Note 3. Property and Equipment

Property and equipment at July 31, 2012 and 2011 consisted of the following:

	2012	2011
Land	\$ 559,506	\$ 559,506
Land improvements	2,141,416	2,117,244
Buildings	49,753,251	49,632,562
Equipment	8,555,472	7,871,079
Construction in progress	334,429	98,979
	61,344,074	60,279,370
Less accumulated depreciation	22,439,011	20,550,318
	\$ 38,905,063	\$ 39,729,052

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Property and Equipment (Continued)

In connection with ongoing renovation projects and website redesign, the Seminary has outstanding contractual commitments totaling approximately \$75,000 at July 31, 2012.

Note 4. Beneficial Interests in Split-Interest Agreements

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

Note 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.

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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

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.

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

Mortgage-backed securities: Investments 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-backed securities are classified within Level 2 of the valuation hierarchy.

Beneficial interests in split-interest agreements: The Seminary has been named as a beneficiary in split-interest agreements 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 the 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.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

The following tables summarize financial assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of July 31, 2012 and 2011:

	2012			
	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	\$ -	\$ 858,717	\$ -	\$ 858,717
Privately held common stock	-	-	1,406,886	1,406,886
Equities:				
US Large Cap	2,637,465	-	-	2,637,465
US Mid Cap	1,378,656	-	-	1,378,656
US Small Cap	921,470	-	-	921,470
Developed Markets	193,840	-	-	193,840
Total equities	5,131,431	-	-	5,131,431
Fixed income securities:				
US Government and agencies	-	78,787	-	78,787
Corporate	-	3,424,603	-	3,424,603
Total fixed income securities	-	3,503,390	-	3,503,390
Mutual funds	5,964,379	-	-	5,964,379
Exchange-traded funds	2,201,703	-	-	2,201,703
Mortgage-backed securities	-	3,312,847	-	3,312,847
	13,297,513	7,674,954	1,406,886	22,379,353
Beneficial interest in split-interest agreements	-	-	2,710,902	2,710,902
Total financial assets	\$ 13,297,513	\$ 7,674,954	\$ 4,117,788	\$ 25,090,255

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

	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:				
US Large Cap	2,932,268	-	-	2,932,268
US Mid Cap	2,444,082	-	-	2,444,082
US Small Cap	714,821	-	-	714,821
Developed Markets	413,905	-	-	413,905
Total equities	6,505,076	-	-	6,505,076
Fixed income securities:				
US Government and agencies	-	252,754	-	252,754
Corporate	-	2,442,624	-	2,442,624
Total fixed income securities	-	2,695,378	-	2,695,378
Mutual funds	5,712,994	-	-	5,712,994
Exchange-traded funds	2,080,796	-	-	2,080,796
Mortgage-backed securities	-	3,818,095	-	3,818,095
	14,298,866	7,204,188	1,406,886	22,909,940
Beneficial interest in split-interest agreements	-	-	2,686,033	2,686,033
Total financial assets	\$ 14,298,866	\$ 7,204,188	\$ 4,092,919	\$ 25,595,973

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, 2012 and 2011:

	Privately Held Common Stock	Beneficial Interests in Split-Interest Agreements
Beginning balance, August 1, 2010	\$ 1,406,886	\$ 2,508,757
Distributions from split-interest agreements	-	(164,402)
Change in value before distributions	-	341,678
Ending Balance, July 31, 2011	1,406,886	2,686,033
Contributions	-	175,870
Distributions from split-interest agreements	-	(119,425)
Change in value before distributions	-	(31,576)
Ending balance, July 31, 2012	\$ 1,406,886	\$ 2,710,902

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 table summarizes financial assets measured at fair value on a nonrecurring basis by classification within the fair value hierarchy as of July 31, 2012 and 2011:

	Assets held for sale			
	Total	Level 1	Level 2	Level 3
Fair value at July 31, 2012	\$ 20,000	\$ -	\$ -	\$ 20,000
Fair value at July 31, 2011	520,000	-	-	520,000

During the year ended July 31, 2012, the Seminary sold certain assets held for sale for \$348,178 recognizing a loss on the sale of these assets of \$151,822.

For the year ended July 31, 2011, assets held for sale were written down to their fair values resulting in a loss of \$110,410.

Note 6. Retirement Plan

Permanent employees of the Seminary 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 2012 and 2011 was \$794,869 and \$777,901, respectively.

Note 7. Postretirement Benefits

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

Net periodic postretirement benefit costs recognized as expenses included the following components for the years ended July 31, 2012 and 2011:

	2012	2011
Service cost-benefits attributable to service during the year	\$ 266,790	\$ 190,025
Interest on accumulated postretirement benefit obligation	372,837	348,064
Amortization of unrecognized transition obligation	129,060	129,060
Amortization of net experience losses	1,253	-
	<u>\$ 769,940</u>	<u>\$ 667,149</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Postretirement Benefits (Continued)

The accumulated postretirement benefit obligation recognized on the accompanying consolidated statements of financial position includes the following components and activity as of and for the years ended July 31, 2012 and 2011:

	2012	2011
Benefit obligation at beginning of year	\$ 7,304,562	\$ 6,683,205
Service cost-benefits attributable to service during the year	266,790	190,025
Interest on accumulated postretirement benefit obligation	372,837	348,064
Benefits paid by the Seminary	(306,768)	(300,595)
Actuarial (gain) loss	(46,201)	194,919
Effect of change in discount rate assumption	1,777,014	140,365
Effect of change in mortality, withdrawal, and trend assumptions	143,020	48,579
Benefit obligation at end of year	\$ 9,511,254	\$ 7,304,562

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, 2012 and 2011 but which have been reflected as a reduction to unrestricted net assets, apart from expenses, on the accompanying consolidated statements of activities for the years ended July 31, 2012 and 2011:

	2012	2011
Net transition obligation	\$ 371,620	\$ 500,680
Net experience losses	2,618,074	745,494
	\$ 2,989,694	\$ 1,246,174

The following amounts included in accumulated postretirement benefit obligation at July 31, 2012 and 2011 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 2013:

Amortization of unrecognized transition obligation	\$ 129,060
Net experience losses	138,912

For measurement purposes, an 8.50% annual rate of increase in per capita health care costs of covered benefits was assumed for 2012 with such annual rate of increase gradually declining to 5.0% by 2019. An 8.75% annual rate of increase in per capita health care costs of covered benefits was assumed for 2011 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, 2012 and 2011, would be increased by approximately \$73,000 (0.77%) and \$132,000 (1.80%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2012 and 2011, would be increased by approximately \$7,000 (1.13%) and \$12,000 (2.24%), 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, 2012 and 2011, would be decreased by approximately \$57,000 (0.60%) and \$118,000 (1.62%), respectively, and the aggregate of the service

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Postretirement Benefits (Continued)

and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2012 and 2011, would be decreased by approximately \$5,500 (0.86%) and \$10,500 (1.96%), respectively.

The weighted average discount rate used in estimating the benefit obligation and net periodic benefit cost at July 31, 2012 and 2011, was 3.55% and 5.05%, 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
2013	\$ 392,243
2014	392,585
2015	396,851
2016	431,018
2017	447,011
2018-2022	2,558,168

Note 8. Line of Credit

At July 31, 2012 and 2011, 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 during the years ended July 31, 2012 and 2011. The outstanding balance and all accrued but unpaid interest will be due on February 12, 2014. 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 0.16% at July 31, 2012 (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, 2012 and 2011, were \$6,775,000 and \$7,170,000, respectively. Total interest expense for the years ended July 31, 2012 and 2011, was \$11,175 and \$18,175, 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

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 9. Bonds Payable (Continued)

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 BB&T.

The agreement contains various restrictive covenants, one 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.

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
2013	\$ 410,000
2014	425,000
2015	445,000
2016	460,000
2017	480,000
Thereafter	4,555,000
	<u>\$ 6,775,000</u>

Note 10. Unrestricted Net Assets

Unrestricted net assets include board-designated amounts for endowment purposes at July 31, 2012 and 2011 of \$5,562,622 and \$5,766,024, respectively. These amounts are affected by investment return and appropriations subsequent to designation.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets as of July 31, 2012 and 2011, are available for the following purposes:

	2012	2011
Purposes restrictions:		
Scholarships	\$ 4,066,242	\$ 4,400,001
Project renovations	2,433,197	2,462,259
Faculty	1,191,451	1,670,808
Institutional support	805,328	817,322
Lectures and awards	243,236	268,119
Remainder trusts	220,088	163,716
Library	203,699	218,173
Other	349,080	371,622
	<u>\$ 9,512,321</u>	<u>\$ 10,372,020</u>

Note 12. Permanently Restricted Net Assets

Permanently restricted net assets at July 31, 2012 and 2011, are restricted to:

	2012	2011
Investment in perpetuity, the income from which is expendable to support:		
Faculty	\$ 6,428,243	\$ 6,044,547
Scholarships	6,368,053	6,325,960
Institutional support	2,729,471	2,747,874
Lectures and awards	361,976	361,606
Library	278,583	275,575
Plant maintenance	186,798	166,794
	<u>\$ 16,353,124</u>	<u>\$ 15,922,356</u>

Note 13. Net Assets Released From Donor Restrictions

Net assets during the years ended July 31, 2012 and 2011, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows:

	2012	2011
Purpose restrictions accomplished:		
Faculty	\$ 510,774	\$ 153,286
Scholarships	476,077	835,979
Project renovations	73,457	109,053
Lectures and awards	28,189	11,262
Library	16,819	14,366
Other	128,113	232,119
	<u>\$ 1,233,429</u>	<u>\$ 1,356,065</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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 the Uniform Prudent Management of Institutional Funds Act (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:

- 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, 2012 and 2011, the aggregate amount that the fair values of these endowments was below the donor or NCUPMIFA required levels was \$104,598 and \$85,908, respectively, and are reported within unrestricted net assets.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 14. Endowment Funds (Continued)

These deficiencies are generally due to unfavorable market fluctuations that occurred within the Seminary's investment portfolio. During the years ended July 31, 2012 and 2011, appropriations of \$5,814 and \$13,440, respectively, were made on funds with deficiencies.

The following table summarizes changes in endowment net assets for the years ended July 31, 2012 and 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, August 1, 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	\$ 5,680,116	\$ 3,239,871	\$ 13,611,464	\$ 22,531,451
Contributions	-	-	330,748	330,748
Interest, other investment income, net of expenses, and realized and unrealized gains (losses), and other gains (losses)	34,850	32,828	(28,701)	38,977
Appropriations of endowment assets for expenditure	(238,252)	(718,206)	-	(956,458)
Net asset reclassification of underwater endowments	(18,690)	18,690	-	-
Endowment net assets, July 31, 2012	<u>\$ 5,458,024</u>	<u>\$ 2,573,183</u>	<u>\$ 13,913,511</u>	<u>\$ 21,944,718</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 as of July 31, 2012 and 2011:

2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Faculty	\$ -	\$ 715,670	\$ 6,237,701	\$ 6,953,371
Scholarships	(91,388)	1,457,736	5,041,490	6,407,838
Institutional support	(41)	207,226	1,806,963	2,014,148
Lectures and awards	(3,698)	114,257	361,976	472,535
Library	(9,314)	73,649	278,583	342,918
Plant maintenance	(157)	4,645	186,798	191,286
	(104,598)	2,573,183	13,913,511	16,382,096
Board-designated endowment funds	5,562,622	-	-	5,562,622
Total endowment net assets	\$ 5,458,024	\$ 2,573,183	\$ 13,913,511	\$ 21,944,718
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
Total endowment net assets	\$ 5,680,116	\$ 3,239,871	\$ 13,611,464	\$ 22,531,451

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 15. Lease Commitments

The Seminary has various operating leases primarily for office equipment and student housing that expire between 2013 and 2015. Total rental expense under cancelable and noncancelable operating leases was \$1,882,795 and \$1,882,573 for 2012 and 2011, respectively.

As of July 31, 2012, the Seminary had entered into capital lease obligations to finance the purchase of equipment with a cost of \$364,583 and accumulated amortization of \$37,209.

At July 31, 2012, the future minimum lease payments under non-cancelable operating leases and capital leases were as follows:

Year Ending July 31,	Operating	Capital
2013	\$ 1,870,422	\$ 84,000
2014	1,409,667	84,000
2015	208,368	84,000
2016	-	84,000
2017	-	70,000
	<u>\$ 3,488,457</u>	<u>406,000</u>
Less amount representing interest (rate of 7.39%)		65,483
Present value of minimum lease payments		<u><u>\$ 340,517</u></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 asset 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.
Wake Forest, North Carolina

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information, except for the schedule of insurance in force, on which we express no opinion, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McGladrey LLP

Raleigh, North Carolina
October 16, 2012

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Statements of Activities Information
Years Ended July 31, 2012 and 2011

Cooperative Program, Southern Baptist Convention	2012	2011
Churches/miscellaneous	\$ 195,739	\$ 200,706
Miscellaneous individuals	8,259	16,753
Alabama	715,544	716,401
Alaska	8,838	8,979
Arizona	32,178	31,610
Arkansas	349,399	341,983
California	85,727	76,004
Colorado	23,625	23,115
Dakota Fellowship	1,795	1,641
District of Columbia	1,338	1,551
Florida	515,136	503,799
Georgia	780,988	675,492
Hawaii Pacific	14,683	15,155
Illinois	95,861	96,645
Indiana	37,200	36,874
Iowa	3,884	3,987
Kansas-Nebraska	24,800	23,852
Kentucky	381,878	339,600
Louisiana	317,250	321,509
Maryland-Delaware	72,024	71,251
Michigan	12,702	19,466
Minnesota-Wisconsin	2,541	2,320
Mississippi	458,971	451,882
Missouri	223,227	216,911
Montana Fellowship	4,189	3,948
Nevada	8,801	10,561
New England	3,478	4,483
New Mexico	37,704	42,885
New York	8,400	8,752
North Carolina	415,707	415,196
Northwest	27,124	26,257
Ohio	68,257	68,376
Oklahoma	410,542	413,666
Pennsylvania-South Jersey	8,163	8,077
South Carolina	464,293	473,258
Tennessee	590,274	590,550
Texas, BGCT	459,255	476,609
Texas, SBTC	582,002	555,814
Utah-Idaho	6,870	7,049
Virginia, BGAV	69,493	77,106
Virginia, SBCV	162,705	173,873
West Virginia	18,346	19,328
Wyoming	5,800	6,702
Puerto Rico/U. S. Virgin Islands	199	262
Other	28,112	58,598
Total cooperative program	\$ 7,743,301	\$ 7,638,836

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Insurance In Force (Unaudited)

July 31, 2012

Type	Coinsurance	Amount
Commercial property blanket policy:		
Fire, lightning and extended coverage:		
Buildings and personal property	100%	\$106,629,151
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.



**Independent Auditor's Report
on Internal Control Over Financial
Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***

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

We have audited the consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and Subsidiary (the Seminary) as of and for the year ended July 31, 2012, and have issued our report thereon dated October 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Seminary is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Seminary's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Seminary's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Seminary's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey LLP

Raleigh, North Carolina
October 16, 2012