

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Financial Report
July 31, 2014

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and subsidiary (the Seminary), which comprise the consolidated statement of financial position as of July 31, 2014, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southeastern Baptist Theological Seminary, Inc. and subsidiary as of July 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The image shows a handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
October 17, 2014

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statement of Financial Position

July 31, 2014

Assets

Cash	\$ 11,336,335
Accounts and Notes Receivable, Less Allowance for Doubtful accounts of \$139,177	481,996
Prepaid Expenses and Other Assets	417,510
Investments (Notes 2 and 5)	25,212,012
Assets Held for Sale (Note 5)	20,000
Unamortized Debt Issuance Costs (Note 9)	101,562
Cash Restricted for Capital Projects (Note 9)	74,792
Property and Equipment, Net (Notes 3 and 9)	39,138,338
Beneficial Interests in Split-Interest Agreements (Notes 4 and 5)	5,589,566
	<hr/>
Total assets	\$ 82,372,111

Liabilities and Net Assets

Liabilities

Accounts payable and other accrued expenses	\$ 1,177,391
Student deposits	680,250
Deferred revenue	878,460
Postretirement benefit liability (Note 7)	8,473,089
Bonds payable (Note 9)	6,814,332
Capital lease obligation (Note 15)	214,136
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Total liabilities	18,237,658

Commitments and Contingencies (Notes 3, 6, 7, 8, 9, 15, and 16)

Net Assets (Note 14)

Unrestricted (Note 10)	31,155,769
Temporarily restricted (Note 11)	10,389,920
Permanently restricted (Note 12)	22,588,764
	<hr/>
Total net assets	64,134,453

Total liabilities and net assets

\$ 82,372,111

See Notes to Consolidated Financial Statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended July 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support				
Gross tuition and fees	\$ 11,339,408	\$ -	\$ -	\$ 11,339,408
Less institutional grants	1,712,809	-	-	1,712,809
	9,626,599	-	-	9,626,599
Sales and services of auxiliary enterprises	4,413,930	-	-	4,413,930
SBC Cooperative Program	7,768,739	-	-	7,768,739
Private gifts and bequests	888,811	1,121,076	1,901,222	3,911,109
Investment return, net designated for current operations (Note 2)	266,430	801,682	-	1,068,112
Distributions received from beneficial interests in split-interest agreements (Note 5)	-	120,939	-	120,939
Other income	439,855	3,955	-	443,810
Total revenues, gains and other support	23,404,364	2,047,652	1,901,222	27,353,238
Net Assets Released From Program				
Restrictions (Note 13)	1,680,543	(1,680,543)	-	-
Expenses				
Educational and general:				
Instruction	10,561,379	-	-	10,561,379
Administrative and general	7,375,162	-	-	7,375,162
Operation and maintenance of plant	2,700,496	-	-	2,700,496
Total educational and general	20,637,037	-	-	20,637,037
Auxiliary enterprises	4,691,165	-	-	4,691,165
Total expenses	25,328,202	-	-	25,328,202
Change in net assets from operations	(243,295)	367,109	1,901,222	2,025,036
Other Changes				
Investment return, net in excess of amounts designated for current operations (Note 2)	131,333	220,963	-	352,296
Gifts of beneficial interests in split-interest agreements (Note 5)	-	-	2,529,731	2,529,731
Change in value of beneficial interests in split-interest agreements	-	(15,527)	172,085	156,558
Reclassification of change in value of beneficial interests in split-interest agreements	(55,265)	55,265	-	-
Reclassification of underwater endowments (Note 14)	9,218	(9,218)	-	-
Changes in postretirement benefit liability other than net periodic postretirement benefit costs (Note 7)	44,840	-	-	44,840
Change in net assets	(113,169)	618,592	4,603,038	5,108,461
Net Assets				
Beginning	31,268,938	9,771,328	17,985,726	59,025,992
Ending	\$ 31,155,769	\$ 10,389,920	\$ 22,588,764	\$ 64,134,453

See Notes to Consolidated Financial Statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statement of Cash Flows
Year Ended July 31, 2014

Cash Flows From Operating Activities	
Change in net assets	\$ 5,108,461
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	1,955,486
Change in value of beneficial interests in split-interest agreements	(156,558)
Gifts of beneficial interests in split-interest agreements	(2,529,731)
Bad debt expense	26,944
Realized and unrealized gains on investments	(1,045,484)
Loss on sale or disposal of property and equipment	4,406
Contributions restricted for long-term purposes	(1,901,222)
Contributions restricted for property and equipment	(281,289)
(Increase) decrease in:	
Accounts and notes receivable	(36,319)
Prepaid expenses and other assets	(15,872)
Increase (decrease) in:	
Accounts payable and other accrued expenses	(271,671)
Student deposits	(109,972)
Postretirement benefit liability	423,428
Deferred revenue	63,220
Net cash provided by operating activities	1,233,827
Cash Flows From Investing Activities	
Proceeds from sale of investments	9,204,150
Purchase of investments	(9,060,795)
Purchases of property and equipment	(2,602,522)
Change in cash restricted for capital projects	807,395
Net cash (used in) investing activities	(1,651,772)

(Continued)

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statement of Cash Flows (Continued)
Year Ended July 31, 2014

Cash Flows From Financing Activities	
Proceeds from contributions restricted for:	
Long-term purposes	\$ 1,901,222
Property and equipment	281,289
Other financing activities:	
Payments on bonds payable	(685,668)
Payments on capital lease obligation	(65,518)
Net cash provided by financing activities	<u>1,431,325</u>
Net increase in cash	1,013,380
Cash	
Beginning	<u>10,322,955</u>
Ending	<u><u>\$ 11,336,335</u></u>
Supplemental Disclosures of Cash Flow Information	
Cash payments for interest	<u><u>\$ 120,430</u></u>

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 (SBC). It is governed by the Board of Trustees who are elected by the SBC. 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). All significant intercompany accounts and transactions have been eliminated in consolidation.

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 \$6,266,736 at July 31, 2014. Cash designated or restricted for long-term purposes is included with investments.

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

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

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

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 land, which was donated and 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 outstanding bonds payable are deferred and amortized to income over the term of the bonds using a method that approximates 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 included 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 revenue: Deferred revenue represents the tuition and fees revenue billed and received for the upcoming school year.

Functional allocation of expenses: Expenses are primarily reported in the statements of activities in categories recommended by the National Association of College and University Business Officers. The Seminary's primary program service is instruction. Expenses reported as administrative and general, operation and 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 \$491,000 for the year ended July 31, 2014.

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 2011.

Subsequent events: The Seminary has evaluated its subsequent events (events occurring after July 31, 2014) through October 17, 2014, which represents the date the financial statements were available to be issued.

Accounting pronouncements issued and adopted: In October 2012, the FASB issued ASU 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This ASU requires any entity within the scope of ASC 958 to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit-imposed limitations for sale and were converted nearly immediately into cash. The amendments to ASU 2012-05 were adopted during the Seminary's year ended July 31, 2014, and did not have a material effect on the Seminary's consolidated financial statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Investments

Investments at July 31, 2014, consist of the following:

	Cost	Net Unrealized Appreciation (Depreciation)	Fair Value
Short-term cash investments	\$ 727,515	\$ -	\$ 727,515
Privately held common stock	1,406,886	(747,886)	659,000
Equities	5,361,270	1,473,875	6,835,145
Fixed income securities	5,535,680	(33,096)	5,502,584
Mutual funds and exchange-traded funds	7,389,273	1,399,924	8,789,197
Mortgage-backed securities	2,656,748	41,823	2,698,571
	<u>\$ 23,077,372</u>	<u>\$ 2,134,640</u>	<u>\$ 25,212,012</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.

The following schedule summarizes the investment return, net, and its classification in the statement of activities for the year ended July 31, 2014:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Dividends and interest, net of expenses	\$ 85,731	\$ 289,193	\$ -	\$ 374,924
Net realized gains	316,304	1,076,239	-	1,392,543
Net unrealized losses	(4,272)	(342,787)	-	(347,059)
Total return on investments	397,763	1,022,645	-	1,420,408
Investment return designated for current operations	266,430	801,682	-	1,068,112
Investment return in excess of amounts designated for current operations	\$ 131,333	\$ 220,963	\$ -	\$ 352,296

The total investment return designated for current operations is the draw that the Seminary takes from its endowment in accordance with its approved endowment spending policy as disclosed in Note 14.

Investment expenses for the year ended July 31, 2014 were \$190,926.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Property and Equipment

Property and equipment at July 31, 2014, consist of the following:

Land	\$ 1,676,517
Land improvements	2,164,572
Buildings	51,441,894
Equipment	9,911,217
Construction in progress	250,092
	<hr/>
	65,444,292
Less accumulated depreciation	26,305,954
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	<u>\$ 39,138,338</u>

In connection with ongoing projects, the Seminary has outstanding contractual commitments totaling approximately \$85,000 at July 31, 2014.

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

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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

Investments:

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

Equities and mutual funds: Equity securities and mutual funds listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy. The Seminary also holds shares of stock in a privately held company which are valued by comparing 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 for which the Seminary is not the trustee. The fair value was determined primarily based on the fair value of the assets held in trusts as provided by the trustees. Under the guidelines set forth in the FASB ASC 820 fair value hierarchy, the trust assets are classified as Level 3 inputs.

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, 2014:

Description	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	\$ -	\$ 727,515	\$ -	\$ 727,515
Privately held common stock	-	-	659,000	659,000
Equities:				
US Large Cap	4,129,473	-	-	4,129,473
US Mid Cap	1,735,331	-	-	1,735,331
US Small Cap	663,893	-	-	663,893
Developed Markets	306,448	-	-	306,448
Total equities	6,835,145	-	-	6,835,145
Fixed income securities:				
US Government and agencies	-	1,715,971	-	1,715,971
Corporate	-	3,786,613	-	3,786,613
Total fixed income securities	-	5,502,584	-	5,502,584
Mutual funds and exchange-traded funds:				
Domestic bond funds	1,749,607	-	-	1,749,607
Commodity funds	1,082,043	-	-	1,082,043
International stock funds	4,760,523	-	-	4,760,523
Real estate funds	629,087	-	-	629,087
Domestic stock funds	567,937	-	-	567,937
Total mutual funds and exchange-traded funds	8,789,197	-	-	8,789,197
Mortgage-backed securities	-	2,698,571	-	2,698,571
Total investments	15,624,342	8,928,670	659,000	25,212,012
Beneficial interests in split-interest agreements	-	-	5,589,566	5,589,566
Total financial assets	\$ 15,624,342	\$ 8,928,670	\$ 6,248,566	\$ 30,801,578

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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 year ended July 31, 2014:

	Privately Held Common Stock	Beneficial in Split-Interest Agreements
Beginning balance, August 1, 2013	\$ 960,886	\$ 2,903,277
Contributions	-	2,529,731
Distributions from split-interest agreements	-	(120,939)
Change in value before distributions	-	277,497
Unrealized losses	(301,886)	-
Ending balance, July 31, 2014	<u>\$ 659,000</u>	<u>\$ 5,589,566</u>

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

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, 2014:

	Level 1	Level 2	Level 3	Total
Assets held for sale	\$ -	\$ -	\$ 20,000	\$ 20,000

There has been no change in the fair value of assets held for sale during fiscal year 2014.

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 2014 was \$850,815.

During 2013, the Seminary established a nonqualified deferred compensation plan for the benefit of the President of the Seminary. The primary purpose of the plan is to provide additional compensation to the President upon termination of employment with the Seminary. The Seminary does not match employee contributions to the plan and has recorded no asset or liability on the consolidated statement of financial position.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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 year ended July 31, 2014:

Service cost-benefits attributable to service during the year	\$ 270,434
Interest on accumulated postretirement benefit obligation	360,595
Amortization of unrecognized transition obligation	129,060
	<u>\$ 760,089</u>

The accumulated postretirement benefit obligation recognized on the accompanying consolidated statements of financial position includes the following components and activity as of and for the year ended July 31, 2014:

Benefit obligation at beginning of year	\$ 8,049,661
Service cost-benefits attributable to service during the year	270,434
Interest on accumulated postretirement benefit obligation	360,595
Benefits paid by the Seminary	(291,821)
Actuarial gain	(414,743)
Effect of change in discount rate assumption	424,666
Effect of change in mortality, withdrawal, and trend assumptions	74,297
Benefit obligation at end of year	<u>\$ 8,473,089</u>

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, 2014, but which have been reflected as a reduction to unrestricted net assets, apart from expenses, on the accompanying consolidated statement of activities for the year ended July 31, 2014:

Net transition obligation	\$ 129,060
Net experience losses	681,535
	<u>\$ 810,595</u>

The following amounts included in accumulated postretirement benefit obligation at July 31, 2014, 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 2015:

Net transition obligation	\$ 129,060
Net experience losses	681,535
	<u>\$ 810,595</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Postretirement Benefits (Continued)

For measurement purposes, an 8.00% annual rate of increase in per capita health care costs of covered benefits was assumed for 2014 with such annual rate of increase gradually declining to 5.00% by 2020. If assumed health care cost trend rates were increased by one percentage point in each year, the accumulated postretirement benefit obligation at July 31, 2014, would be increased by approximately \$218,500 (2.58%), and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the year ended July 31, 2014, would be increased by approximately \$21,300 (3.38%).

If assumed health care cost trend rates were decreased by one percentage point in each year, the accumulated postretirement benefit obligation at July 31, 2014, would be decreased by approximately \$193,400 (2.28%), and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the year ended July 31, 2014, would be decreased by approximately \$18,500 (2.93%).

The weighted average discount rate used in estimating the benefit obligation and net periodic benefit cost as of and for the year ended July 31, 2014 was 4.05%.

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
2015	\$ 397,363
2016	404,950
2017	431,979
2018	455,189
2019	469,159
2020 – 2024	2,601,782

Note 8. Line of Credit

At July 31, 2014, 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% and require monthly interest payments. There were no outstanding borrowings under the line of credit agreement during the year ended July 31, 2014. The outstanding balance and all accrued but unpaid interest will be due on February 12, 2017. The loan agreement associated with the line of credit contains various financial and restrictive covenants which are typical of such agreements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 9. Bonds Payable and Bank-Held Term Loan

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

Interest on the term loan accrues at a variable rate equal to the sum of 70% of the one-month LIBOR (0.16% at July 31, 2014) plus 1.25%, with monthly principal and interest payments beginning August 1, 2013. The loan matures on March 1, 2025. The term loan contains certain financial and restrictive covenants, which are typical of such agreements. The loan is collateralized by a deed of trust to real property and assigned rents and leases of assigned property. The total amount outstanding at July 31, 2014, on these bonds was \$6,814,332.

Total interest expense related to the 2013 Bonds for the year ended July 31, 2014 was \$101,252.

Required principal payments anticipated by the Seminary on the term loan are as follows:

Year Ending July 31,	Amount
2015	\$ 535,668
2016	554,332
2017	575,004
2018	594,336
2019	616,000
Thereafter	3,938,992
	<u><u>\$ 6,814,332</u></u>

During 2013, the Seminary capitalized \$111,641 of debt issuance costs related to the issuance of the 2013 Bonds. Expected amortization is approximately \$9,000 over each of the next five years.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 10. Unrestricted Net Assets

Unrestricted net assets include board-designated amounts for endowment purposes at July 31, 2014 of \$4,603,504. These amounts are affected by investment return and appropriations subsequent to designation.

Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets as of July 31, 2014, are available for the following purposes:

Purposes restrictions	
Scholarships	\$ 3,984,756
Project renovations	2,465,900
Faculty	1,804,795
Institutional support	1,184,085
Lectures and awards	254,991
Library	227,362
Other	468,031
	<u>\$ 10,389,920</u>

Note 12. Permanently Restricted Net Assets

Permanently restricted net assets at July 31, 2014, are restricted to:

Investment in perpetuity, the income from which is expendable to support	
Scholarships	\$ 8,709,415
Faculty	7,758,458
Institutional support	4,932,461
Lectures and awards	362,696
Remainder trusts	295,153
Library	283,783
Project renovations	246,798
	<u>\$ 22,588,764</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 13. Net Assets Released From Donor Restrictions

Net assets during the year ended July 31, 2014, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows:

Purpose restrictions accomplished	
Scholarships	\$ 662,155
Faculty	409,044
Project renovations	275,876
Institutional support	97,644
Lectures and awards	49,287
Library	16,558
Other	169,979
	<u>\$ 1,680,543</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 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

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 14. Endowment Funds (Continued)

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%. Asset allocation ranges, benchmark indices, risk tolerances, and rebalancing procedures are specified within the Investment Policy Statement.

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

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, 2014, the aggregate amount that the fair values of these endowments was below the donor or NCUPMIFA required levels was \$73,983, 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 year ended July 31, 2014, appropriations of \$15,325 were made on funds with deficiencies.

The following table summarizes changes in endowment net assets for the year ended July 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, August 1, 2013	\$ 5,705,168	\$ 3,545,585	\$ 15,137,715	\$ 24,388,468
Contributions	-	-	1,901,222	1,901,222
Interest, other investment income, net of expenses, and realized and unrealized gains, and other gains	406,565	1,324,532	-	1,731,097
Appropriations of endowment assets for expenditure	(266,430)	(801,682)	-	(1,068,112)
Appropriations of board-designated endowment assets for capital expenditure	(1,325,000)	-	-	(1,325,000)
Net asset reclassification of underwater endowments	9,218	(9,218)	-	-
Endowment net assets, July 31, 2014	<u>\$ 4,529,521</u>	<u>\$ 4,059,217</u>	<u>\$ 17,038,937</u>	<u>\$ 25,627,675</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 14. Endowment Funds (Continued)

The following table summarizes the composition of endowment net assets by fund type as of July 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Faculty	\$ -	\$ 1,467,849	\$ 7,563,847	\$ 9,031,696
Scholarships	(63,340)	1,954,072	5,891,537	7,782,269
Institutional support	-	366,266	2,690,276	3,056,542
Lectures and awards	(2,140)	146,521	362,696	507,077
Library	(8,503)	105,136	283,783	380,416
Project renovations	-	19,373	246,798	266,171
	(73,983)	4,059,217	17,038,937	21,024,171
Board-designated endowment funds	4,603,504	-	-	4,603,504
Total endowment net assets	\$ 4,529,521	\$ 4,059,217	\$ 17,038,937	\$ 25,627,675

Note 15. Lease Commitments

The Seminary has various operating leases primarily for office equipment and student housing that expire between 2015 and 2030. Total rental expense under cancelable and noncancelable operating leases was \$1,783,114 for 2014.

During the year ended July 31, 2012, the Seminary entered into a capital lease obligation to finance the purchase of equipment with a cost of \$364,583 and accumulated depreciation as of July 31, 2014 of \$125,868.

At July 31, 2014, the future minimum lease payments under non-cancelable operating leases and capital leases were as follows:

Year Ending July 31,	Operating	Capital
2015	\$ 1,764,776	\$ 84,000
2016	1,675,878	84,000
2017	1,670,054	70,000
2018	1,670,054	-
2019	1,670,054	-
Thereafter	18,680,086	-
	<u>\$ 27,130,902</u>	<u>238,000</u>
Less amount representing interest (rate of 7.39%)		23,864
Present value of minimum lease payments		\$ 214,136

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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 no specified plans that would require abatement of the asbestos and, therefore, settlement dates for these conditional asset retirement obligations are not known nor can they be reasonably estimated.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Statement of Activities Information
Year Ended July 31, 2014**

Cooperative Program, Southern Baptist Convention

Churches/miscellaneous	\$ 230,627
Alabama	712,586
Alaska	9,428
Arizona	33,004
Arkansas	363,694
California	86,457
Colorado	20,871
Dakota Fellowship	2,671
District of Columbia	924
Florida	472,725
Georgia	677,574
Hawaii Pacific	14,269
Illinois	103,278
Indiana	30,040
Iowa	3,799
Kansas-Nebraska	25,289
Kentucky	405,099
Louisiana	322,855
Maryland-Delaware	75,011
Michigan	13,995
Minnesota-Wisconsin	2,802
Mississippi	480,503
Missouri	226,252
Montana Fellowship	5,140
Nevada	12,295
New England	4,456
New Mexico	34,201
New York	8,003
North Carolina	436,413
Northwest	27,993
Ohio	70,702
Oklahoma	426,190
Pennsylvania-South Jersey	8,565
Puerto Rico/U.S. Virgin Islands	249
South Carolina	468,173
Tennessee	583,177
Texas, BGCT	469,227
Texas, SBTC	622,741
Utah-Idaho	6,768
Virginia, BGAV	48,722
Virginia, SBCV	168,757
West Virginia	18,859
Wyoming	5,262
Other	29,093
Total cooperative program	\$ 7,768,739