

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Financial and Compliance Report
July 31, 2015

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Officers of Board of Trustees

Todd Linn
Chairman

Marty Jacumin
Vice Chairman

Henry Williamson
Treasurer

Chris Griggs
Secretary

Officers of Administration

Dr. Daniel L. Akin
President

Ryan R. Hutchinson
Executive Vice President for Operations

Contents

Independent Auditor's Report	1-2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4-5
Consolidated Statements of Cash Flows	6-7
Notes to Consolidated Financial Statements	8-27
Supplementary Information	
Statements of Activities Information:	
Cooperative Program, Southern Baptist Convention	28
Schedule of Expenditures of State Awards	29
Note to Schedule of Expenditures of State Awards	30
Reports Required by <i>Government Auditing Standards</i> :	
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 <i>Government Auditing Standards</i>	31-32
Schedule of Findings and Questioned Costs	33
Summary Schedule of Prior Year Findings	34

(This page intentionally left blank)



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 statements of financial position as of July 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years 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 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 audits 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Supplementary Information and Schedule of Expenditures of State Awards***

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. The accompanying schedule of expenditures of state awards as required by North Carolina General Statute 143C-6-23 and the North Carolina Education Assistance Authority 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 12, 2015 and October 13, 2014, on our consideration of the Seminary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports 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 internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Seminary's internal control over financial reporting and compliance.



Raleigh, North Carolina
October 12, 2015

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Financial Position
July 31, 2015 and 2014

	2015	2014
Assets		
Cash	\$ 12,521,921	\$ 11,336,335
Accounts and notes receivable, less allowance for doubtful accounts 2015 \$153,623; 2014 \$139,177	671,120	481,996
Prepaid expenses and other assets	485,907	417,510
Investments (Notes 2 and 5)	25,642,351	25,212,012
Assets held for sale (Note 5)	20,000	20,000
Unamortized debt issuance costs (Note 9)	92,259	101,562
Cash restricted for capital projects (Note 9)	-	74,792
Property and equipment, net (Note 3)	38,482,944	39,138,338
Beneficial interests in split-interest agreements (Notes 4 and 5)	5,751,480	5,589,566
Total assets	\$ 83,667,982	\$ 82,372,111
Liabilities and Net Assets		
Accounts payable and other accrued expenses	\$ 1,134,008	\$ 1,177,391
Student deposits	678,442	680,250
Deferred revenue	1,140,898	878,460
Postretirement benefit liability (Note 7)	9,204,843	8,473,089
Bonds payable (Note 9)	6,278,664	6,814,332
Capital lease obligation (Note 15)	143,607	214,136
Total liabilities	18,580,462	18,237,658
Commitments and Contingencies (Notes 6, 7, 8, 9, 15, and 16)		
Net Assets (Note 14)		
Unrestricted (Note 10)	30,967,265	31,155,769
Temporarily restricted (Note 11)	9,839,810	10,389,920
Permanently restricted (Note 12)	24,280,445	22,588,764
Total net assets	65,087,520	64,134,453
Total liabilities and net assets	\$ 83,667,982	\$ 82,372,111

See Notes to Consolidated Financial Statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Activities
Years Ended July 31, 2015 and 2014

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Gross tuition and fees	\$ 12,103,252	\$ -	\$ -	\$ 12,103,252
Less institutional grants	1,967,259	-	-	1,967,259
	10,135,993	-	-	10,135,993
Sales and services of auxiliary enterprises	4,146,980	-	-	4,146,980
SBC Cooperative Program	8,211,232	-	-	8,211,232
Private gifts and bequests	1,092,979	769,779	-	1,862,758
Investment return designated for current operations (Note 2)	243,963	899,379	-	1,143,342
Distributions received from beneficial interests in split-interest agreements (Note 5)	-	107,366	-	107,366
Other income	488,835	17,244	-	506,079
Total revenues, gains and other support	24,319,982	1,793,768	-	26,113,750
Net assets released from program restrictions (Note 13)	2,191,513	(2,191,513)	-	-
Expenses:				
Educational and general:				
Instruction	11,100,283	-	-	11,100,283
Administrative and general	7,774,561	-	-	7,774,561
Operation and maintenance of plant	2,695,658	-	-	2,695,658
Total educational and general	21,570,502	-	-	21,570,502
Auxiliary enterprises	4,778,663	-	-	4,778,663
Total expenses	26,349,165	-	-	26,349,165
Change in net assets from operations	162,330	(397,745)	-	(235,415)
Other changes:				
Private gifts and bequests	-	105,123	1,531,534	1,636,657
Investment return in excess of (less than) amounts designated for current operations (Note 2)	(100,267)	(263,999)	-	(364,266)
Gifts of beneficial interests in split-interest agreements (Note 5)	-	-	-	-
Change in value of beneficial interests in split-interest agreements (Note 5)	-	1,767	160,147	161,914
Reclassification of change in value of beneficial interests in split-interest agreements	-	-	-	-
Reclassification of underwater endowments (Note 14)	(4,744)	4,744	-	-
Changes in postretirement benefit liability other than net periodic postretirement benefit costs (Note 7)	(245,823)	-	-	(245,823)
Change in net assets	(188,504)	(550,110)	1,691,681	953,067
Net assets:				
Beginning	31,155,769	10,389,920	22,588,764	64,134,453
Ending	\$ 30,967,265	\$ 9,839,810	\$ 24,280,445	\$ 65,087,520

See Notes to Consolidated Financial Statements.

2014				
Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
\$ 11,339,408	\$ -	\$ -	\$	11,339,408
1,712,809	-	-		1,712,809
9,626,599	-	-		9,626,599
4,413,930	-	-		4,413,930
7,768,739	-	-		7,768,739
888,811	839,787	-		1,728,598
266,430	801,682	-		1,068,112
-	120,939	-		120,939
439,855	3,955	-		443,810
23,404,364	1,766,363	-		25,170,727
1,680,543	(1,680,543)	-		-
10,561,379	-	-		10,561,379
7,375,162	-	-		7,375,162
2,700,496	-	-		2,700,496
20,637,037	-	-		20,637,037
4,691,165	-	-		4,691,165
25,328,202	-	-		25,328,202
(243,295)	85,820	-		(157,475)
-	281,289	1,901,222		2,182,511
131,333	220,963	-		352,296
-	-	2,529,731		2,529,731
-	(15,527)	172,085		156,558
(55,265)	55,265	-		-
9,218	(9,218)	-		-
44,840	-	-		44,840
(113,169)	618,592	4,603,038		5,108,461
31,268,938	9,771,328	17,985,726		59,025,992
\$ 31,155,769	\$ 10,389,920	\$ 22,588,764	\$	64,134,453

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended July 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ 953,067	\$ 5,108,461
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	1,921,902	1,955,486
Change in value of beneficial interests in split-interest agreements	(161,914)	(156,558)
Gifts of beneficial interests in split-interest agreements	-	(2,529,731)
Bad debt expense	21,678	26,944
Realized and unrealized gains on investments	(311,227)	(1,045,484)
Loss on sale or disposal of property and equipment	3,575	4,406
Contributions restricted for long-term purposes	(1,531,534)	(1,901,222)
Contributions restricted for property and equipment	(105,123)	(281,289)
(Increase) decrease in:		
Accounts and notes receivable	(210,802)	(36,319)
Prepaid expenses and other assets	(68,397)	(15,872)
Increase (decrease) in:		
Accounts payable and other accrued expenses	(43,383)	(271,671)
Student deposits	(1,808)	(109,972)
Deferred revenue	262,438	63,220
Postretirement benefit liability	731,754	423,428
Net cash provided by operating activities	1,460,226	1,233,827
Cash Flows From Investing Activities		
Proceeds from sale of investments	10,139,631	9,204,150
Purchase of investments	(10,258,743)	(9,060,795)
Purchases of property and equipment	(1,260,780)	(2,602,522)
Change in cash restricted for capital projects	74,792	807,395
Net cash used in investing activities	(1,305,100)	(1,651,772)

(Continued)

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)

Years Ended July 31, 2015 and 2014

	2015	2014
Cash Flows From Financing Activities		
Proceeds from contributions restricted for:		
Long-term purposes	\$ 1,531,534	\$ 1,901,222
Property and equipment	105,123	281,289
Other financing activities:		
Payments on bonds payable	(535,668)	(685,668)
Payments on capital lease obligation	(70,529)	(65,518)
Net cash provided by financing activities	1,030,460	1,431,325
 Net increase in cash	 1,185,586	 1,013,380
 Cash		
Beginning	<u>11,336,335</u>	<u>10,322,955</u>
Ending	<u><u>\$ 12,521,921</u></u>	<u><u>\$ 11,336,335</u></u>
 Supplemental Disclosures of Cash Flow Information		
Cash payments for interest and bond fees	<u><u>\$ 106,698</u></u>	<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.

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). The Foundation had no financial transactions during the fiscal year and carries no assets or liabilities at July 31, 2015. 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 \$5,379,630 and \$6,266,736 at July 31, 2015 and 2014, 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 beyond the published deadline. Interest is not charged on student accounts receivable. Monthly late fees are assessed at 3% of 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 as 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 Topic, the Seminary recognizes the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability, respectively, in the statements 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.

Operating and non-operating activities: The statements of activities report the change in net assets from operating and non-operating activities. Operating activities consist of all the activities of the Seminary except for certain items specifically considered to be non-operating activities. Non-operating activities include donor-restricted endowed private gifts and bequests; gifts restricted for the acquisition of capital assets; investment income on temporarily and permanently restricted funds not available to support current operations; change in value of split-interest agreements; net asset reclassifications resulting from underwater endowment funds; and significant items of an unusual or non-recurring nature.

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 \$511,000 and \$491,000 for the years ended July 31, 2015 and 2014, 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.

Subsequent events: The Seminary has evaluated its subsequent events (events occurring after July 31, 2015) through October 12, 2015, which represents the date the financial statements were available to be issued.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

Recent accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The amendments in this Update create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*, and create new Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this Update, as amended, will be effective for the Seminary's fiscal year 2020 with early adoption permitted with certain restrictions. Management has not evaluated the impact of this Update on the consolidated financial statements but believes such impact will not be material.

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU will be effective for the Seminary's 2017 fiscal year. An entity should apply the new guidance on a retrospective basis, wherein the statement of financial position of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (that is, debt issuance cost asset and the debt liability). Management has evaluated the impact of this Update on the consolidated financial statements and does not believe such impact will be material.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in this ASU remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the statement of financial position. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The amendments in this ASU are effective for the Seminary's 2018 fiscal year. Early adoption is permitted. Management has evaluated the impact of this Update on the consolidated financial statements and does not believe there will be any impact.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Investments

Investments at July 31, 2015 and 2014, consist of the following:

	2015		
	Cost	Net Unrealized Appreciation (Depreciation)	Fair Value
Short-term cash investments	\$ 958,195	\$ -	\$ 958,195
Privately held common stock	1,406,886	(747,886)	659,000
Equities	4,797,423	1,329,609	6,127,032
Fixed income securities	5,626,528	(102,807)	5,523,721
Mutual funds and exchange-traded funds	8,455,195	712,728	9,167,923
Mortgage-backed securities	3,174,979	31,501	3,206,480
	<u>\$ 24,419,206</u>	<u>\$ 1,223,145</u>	<u>\$ 25,642,351</u>
	2014		
	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 statements of financial position.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

The following schedules summarize the investment return and its classification in the consolidated statements of activities for the years ended July 31, 2015 and 2014:

	2015			
	Unrestricted	Temporarily	Permanently	Total
	Net Assets	Restricted Net Assets	Restricted Net Assets	
Dividends and interest, net of expenses	\$ 85,421	\$ 382,428	\$ -	\$ 467,849
Net realized gains	229,710	993,012	-	1,222,722
Net unrealized losses	(171,435)	(740,060)	-	(911,495)
Total return on investments	143,696	635,380	-	779,076
Investment return designated for current operations	243,963	899,379	-	1,143,342
Investment return less than amounts designated for current operations	\$ (100,267)	\$ (263,999)	\$ -	\$ (364,266)

	2014			
	Unrestricted	Temporarily	Permanently	Total
	Net Assets	Restricted Net Assets	Restricted Net Assets	
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 years ended July 31, 2015 and 2014, were \$179,564 and \$190,926, respectively.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Property and Equipment

Property and equipment at July 31, 2015 and 2014, consisted of the following:

	2015	2014
Land	\$ 1,674,247	\$ 1,676,517
Land improvements	2,164,572	2,164,572
Buildings	52,132,564	51,441,894
Equipment	10,447,186	9,911,217
Construction in progress	260,023	250,092
	<hr/> 66,678,592	<hr/> 65,444,292
Less accumulated depreciation	28,195,648	26,305,954
	<hr/> \$ 38,482,944	<hr/> \$ 39,138,338

Note 4. Beneficial Interests in Split-Interest Agreements

The North Carolina Baptist Foundation administers 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 establishes 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 Earnings Before Interest, Taxes, Depreciation and Amortization (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, 2015 and 2014:

	2015			
	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	\$ -	\$ 958,195	\$ -	\$ 958,195
Privately held common stock	-	-	659,000	659,000
Equities:				
US large cap	2,887,370	-	-	2,887,370
US mid cap	1,593,843	-	-	1,593,843
US small cap	1,040,014	-	-	1,040,014
Developed markets	605,805	-	-	605,805
Total equities	6,127,032	-	-	6,127,032
Fixed income securities:				
US government and agencies	-	1,067,757	-	1,067,757
Corporate	-	4,455,964	-	4,455,964
Total fixed income securities	-	5,523,721	-	5,523,721
Mutual funds and exchange-traded funds:				
Domestic bond funds	1,977,207	-	-	1,977,207
Commodity funds	1,105,584	-	-	1,105,584
International stock funds	4,873,692	-	-	4,873,692
Real estate funds	732,908	-	-	732,908
Domestic stock funds	478,532	-	-	478,532
Total mutual funds and exchange-traded funds	9,167,923	-	-	9,167,923
Mortgage-backed securities	-	3,206,480	-	3,206,480
Total investments	15,294,955	9,688,396	659,000	25,642,351
Beneficial interests in split-interest agreements	-	-	5,751,480	5,751,480
Total financial assets	\$ 15,294,955	\$ 9,688,396	\$ 6,410,480	\$ 31,393,831

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

	2014			
	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 years ended July 31, 2015 and 2014:

	Privately Held Common Stock	Beneficial Interests in Split-Interest Agreements
Beginning, 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	659,000	5,589,566
Distributions from split-interest agreements	-	(107,366)
Change in value before distributions	-	269,280
Ending balance, July 31, 2015	\$ 659,000	\$ 5,751,480

Any unrealized gains (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, 2015 and 2014:

	Level 1	Level 2	Level 3	Total
Fair value at July 31, 2015	\$ -	\$ -	\$ 20,000	\$ 20,000
Fair value at July 31, 2014	\$ -	\$ -	\$ 20,000	\$ 20,000

Note 6. Retirement Plan

Permanent employees of the Seminary who normally work at least half time are participants in a defined contribution plan, which is administered by Guidestone Financial Resources of the SBC. The Seminary contributes 10% of each eligible participant's compensation to the plan and will match an employee's contribution up to 5%. Retirement fund investments are self-directed by the plan participants and the Seminary has no further funding obligation once the contribution has been made. The Seminary's contribution to the plan for the years ended July 31, 2015 and 2014 was \$921,311 and \$850,815, respectively.

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 statements of financial position. Contributions to the plan are held by a third party trustee, Guidestone Financial Resources.

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 years ended July 31, 2015 and 2014:

	2015	2014
Service cost-benefits attributable to service during the year	\$ 305,004	\$ 270,434
Interest on accumulated postretirement benefit obligation	347,466	360,595
Amortization of unrecognized transition obligation	129,059	129,060
	<u>\$ 781,529</u>	<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 years ended July 31, 2015 and 2014:

	2015	2014
Benefit obligation at beginning of year	\$ 8,473,089	\$ 8,049,661
Service cost-benefits attributable to service during the year	305,004	270,434
Interest on accumulated postretirement benefit obligation	347,466	360,595
Benefits paid by the Seminary	(295,598)	(291,821)
Actuarial (gain) loss	293,501	(414,743)
Effect of change in discount rate assumption	-	424,666
Effect of change in mortality, withdrawal, and trend assumptions	81,381	74,297
Benefit obligation at end of year	<u>\$ 9,204,843</u>	<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, 2015 and 2014, 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, 2015 and 2014:

	2015	2014
Net transition obligation	\$ -	\$ 129,060
Net experience losses	1,056,418	681,535
	<u>\$ 1,056,418</u>	<u>\$ 810,595</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Postretirement Benefits (Continued)

The following amounts included in accumulated postretirement benefit obligation at July 31, 2015, 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 2016:

Net experience losses	\$ 1,056,418
-----------------------	--------------

For measurement purposes, an 8.00% annual rate of increase in per capita health care costs of covered benefits was assumed for 2015 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, 2015 and 2014, would be increased by approximately \$226,984 (2.47%) and \$218,500 (2.58%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2015 and 2014, would be increased by approximately \$24,053 (3.69%) and \$21,300 (3.38%), respectively.

If assumed health care cost trend rates were decreased by one percentage point in each year, the accumulated postretirement benefit obligation at July 31, 2015 and 2014, would be decreased by approximately \$200,662 (2.18%) and \$193,400 (2.28%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2015 and 2014, would be decreased by approximately \$20,682 (3.17%) and \$18,500 (2.93%), respectively.

The weighted average discount rate used in estimating the benefit obligation and net periodic benefit cost at July 31, 2015 and 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
2016	\$ 458,069
2017	458,874
2018	487,515
2019	502,906
2020	536,375
2021-2025	2,856,569

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 8. Line of Credit

At July 31, 2015 and 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 are at the London Interbank Offered Rate (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, 2015 and 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 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 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. The 2013 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 2013 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 designated to be used to refinance previously outstanding 2005 Bonds, to pay certain issuance costs, and to finance the acquisition and installation of a new energy-efficient boiler system. At July 31, 2014, \$74,792 was held by the escrow agent and was restricted for the boiler project. The boiler project was completed as of July 2015 and the remaining funds were released for unrestricted expenses. The Seminary also terminated the letter of credit which collateralized the Bonds in connection with the refinancing.

Interest on the term loan accrues at a variable rate equal to the sum of 70% of the one-month LIBOR (0.19% at July 31, 2015) 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 restrictive covenants, including a minimum liquidity and unrestricted net assets requirement as well as a debt service coverage ratio requirement and certain reporting requirements. 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, 2015 and 2014, on these bonds was \$6,278,664 and \$6,814,332, respectively.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 9. Bonds Payable and Bank Held Term Loan (Continued)

Total interest expense and bond fees for the years ended July 31, 2015 and 2014 were \$92,734 and \$101,252, respectively.

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

Year Ending July 31,	Amount
2016	\$ 554,332
2017	575,004
2018	594,336
2019	616,000
2020	637,332
Thereafter	3,301,660
	<u>\$ 6,278,664</u>

During 2013, the Seminary capitalized \$111,641 of debt issuance costs related to the issuance of the 2013 Bonds. Amortization expense recognized during 2015 and 2014 totaled approximately \$9,000 in both years. Expected amortization is approximately \$9,000 over each of the next five years.

Note 10. Unrestricted Net Assets

Unrestricted net assets include board-designated amounts for endowment purposes at July 31, 2015 and 2014, of \$3,766,124 and \$4,603,504, respectively. 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, 2015 and 2014, are available for the following purposes:

	2015	2014
Purposes restrictions:		
Scholarships	\$ 3,744,868	\$ 3,984,756
Project renovations	2,456,350	2,465,900
Faculty	1,630,782	1,804,795
Institutional support	1,152,613	1,184,085
Lectures and awards	249,609	254,991
Library	115,384	227,362
Other	490,204	468,031
	<u>\$ 9,839,810</u>	<u>\$ 10,389,920</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 12. Permanently Restricted Net Assets

Permanently restricted net assets at July 31, 2015 and 2014, are restricted to:

	2015	2014
Investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 9,062,807	\$ 8,709,415
Faculty	8,276,266	7,758,458
Institutional support	5,801,327	4,932,461
Lectures and awards	363,056	362,696
Library	286,183	283,783
Project renovations	271,798	246,798
Remainder trusts	219,008	295,153
	<u>\$ 24,280,445</u>	<u>\$ 22,588,764</u>

Note 13. Net Assets Released From Donor Restrictions

Net assets during the years ended July 31, 2015 and 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:

	2015	2014
Purpose restrictions accomplished:		
Scholarships	\$ 904,341	\$ 662,155
Faculty	529,847	409,044
Institutional support	170,047	97,644
Project renovations	130,349	275,876
Library	123,899	16,558
Lectures and awards	23,750	49,287
Other	309,280	169,979
	<u>\$ 2,191,513</u>	<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 accounting principles generally accepted in the United States of America, 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.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 14. Endowment Funds (Continued)

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%. 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, 2015 and 2014, the aggregate amount that the fair values of these endowments was below the donor or NCUPMIFA required levels was \$78,727 and \$73,983, respectively, and are reported within unrestricted net assets.

These deficiencies are generally due to unfavorable market fluctuations that occurred within the Seminary's investment portfolio. During the years ended July 31, 2015 and 2014, appropriations of \$43,525 and \$15,325, respectively, were made on funds with deficiencies.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 14. Endowment Funds (Continued)

The following table summarizes changes in endowment net assets for the years ended July 31, 2015 and 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	4,529,521	4,059,217	17,038,937	25,627,675
Contributions	-	-	1,531,534	1,531,534
Interest, other investment income, net of expenses, and realized and unrealized gains, and other gains	146,583	635,379	-	781,962
Appropriations of endowment assets for expenditure	(243,963)	(899,379)	-	(1,143,342)
Appropriations of board-designated endowment assets for capital expenditure	(740,000)	-	-	(740,000)
Net asset reclassification of underwater endowments	(4,744)	4,744	-	-
Endowment net assets, July 31, 2015	\$ 3,687,397	\$ 3,799,961	\$ 18,570,471	\$ 26,057,829

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, 2015 and 2014:

2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Faculty	\$ -	\$ 1,351,982	\$ 8,080,644	\$ 9,432,626
Scholarships	(67,536)	1,858,203	6,128,514	7,919,181
Institutional support	-	333,995	3,440,276	3,774,271
Lectures and awards	(2,499)	139,592	363,056	500,149
Library	(8,692)	99,854	286,183	377,345
Project renovations	-	16,335	271,798	288,133
	(78,727)	3,799,961	18,570,471	22,291,705
Board-designated endowment funds	3,766,124	-	-	3,766,124
Total endowment net assets	\$ 3,687,397	\$ 3,799,961	\$ 18,570,471	\$ 26,057,829
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

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 15. Lease Commitments

The Seminary has various operating leases primarily for student housing that expire in 2030. Total rental expense under cancelable and noncancelable operating leases was \$1,764,776 and \$1,783,114 for 2015 and 2014, respectively.

The Seminary has a capital lease obligation for equipment with a cost of \$364,583 and accumulated depreciation as of July 31, 2015 and 2014, of \$177,951 and \$125,868, respectively.

At July 31, 2015, the future minimum lease payments under non-cancelable operating leases and capital leases were as follows:

Year Ending July 31,	Operating	Capital
2016	\$ 1,675,878	\$ 84,000
2017	1,670,054	70,000
2018	1,670,054	-
2019	1,670,054	-
2020	1,670,054	-
Thereafter	17,010,031	-
	<u>\$ 25,366,125</u>	<u>154,000</u>
Less amount representing interest (rate of 7.39%)		10,393
Present value of minimum lease payments		<u><u>\$ 143,607</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 certain of these conditional asset retirement obligations due to the Seminary being unable to reasonably estimate the fair value of the liability. During fiscal 2015, the Seminary recorded a liability of \$54,740 at July 31, 2015, which is included in accounts payable and other accrued expenses on the consolidated statements of financial position, related to abatement within one building for which management was able to reasonably estimate the fair value of the asset retirement obligation. For those obligations for which no liability has been recorded, the 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

Statements of Activities Information

Years Ended July 31, 2015 and 2014

Cooperative Program, Southern Baptist Convention	2015	2014
Churches/Individuals	\$ 217,197	\$ 230,627
Alabama	745,880	712,586
Alaska	9,560	9,428
Arizona	36,931	33,004
Arkansas	378,551	363,694
California	94,306	86,457
Colorado	23,574	20,871
Dakota	2,851	2,671
District of Columbia	577	924
Florida	550,494	472,725
Georgia	737,407	677,574
Hawaii Pacific	14,264	14,269
Illinois	100,324	103,278
Indiana	39,859	30,040
Iowa	7,830	3,799
Kansas-Nebraska	26,540	25,289
Kentucky	429,636	405,099
Louisiana	329,722	322,855
Maryland-Delaware	73,158	75,011
Michigan	14,552	13,995
Minnesota-Wisconsin	3,052	2,802
Mississippi	497,875	480,503
Missouri	249,877	226,252
Montana	5,819	5,140
Nevada	16,154	12,295
New England	4,849	4,456
New Mexico	35,120	34,201
New York	8,529	8,003
North Carolina	455,718	436,413
Northwest	31,351	27,993
Ohio	60,305	70,702
Oklahoma	444,274	426,190
Pennsylvania-South Jersey	8,930	8,565
Puerto Rico/U.S. Virgin Islands	222	249
South Carolina	486,930	468,173
Tennessee	608,657	583,177
Texas, BGCT	467,420	469,227
Texas, SBTC	672,718	622,741
Utah-Idaho	5,850	6,768
Virginia, BGAV	52,094	48,722
Virginia, SBCV	172,896	168,757
West Virginia	19,221	18,859
Wyoming	5,644	5,262
Other	64,514	29,093
Total cooperative program	\$ 8,211,232	\$ 7,768,739

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Schedule of Expenditures of State Awards

Year Ended July 31, 2015

State Grantor/Pass-Through Grantor/Program Title	Expenditures
State Programs:	
Direct Programs:	
North Carolina State Education Assistance Authority:	
North Carolina Need-Based Scholarship Program	<u>\$ 451,300</u>
Total State Awards	<u><u>\$ 451,300</u></u>

See Note to Schedule of Expenditures of State Awards.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Note to Schedule of Expenditures of State Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of state awards includes state grant activity of the Seminary and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of North Carolina General Statute 143C-6-23. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.



**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and Subsidiary (the Seminary), which comprise the consolidated statement of financial position as of July 31, 2015, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 12, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Seminary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Seminary's internal control. Accordingly, we do not express an opinion on the effectiveness of the Seminary's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Seminary's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Raleigh, North Carolina
October 12, 2015

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Schedule of Findings and Questioned Costs
Year Ended July 31, 2015**

Section I. Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:

Internal control over financial reporting:

Material weakness(es) identified?

Significant deficiency(ies) identified?

Noncompliance material to financial statements noted?

Unmodified			
	Yes	X	No
	Yes	X	None Reported
	Yes	X	No

Section II. Financial Statement Findings

None.

(This page intentionally left blank)

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Summary of Prior Year Findings Year Ended July 31, 2015

Audit Findings:

Item 2014-001: Beneficial Interest in a Split-Interest Agreement (Significant Deficiency)

For the fiscal year ended July 31, 2014, an unrecorded fully funded trust in which the Seminary held interest through a split-interest agreement was identified. The agreement was between a charitable remainder unit trust and the Seminary and was entered into during the Seminary's fiscal year ending July 31, 2003. Upon reading the agreement and through discussions with management, it was determined that the split-interest agreement did not contain language allowing the beneficiary of the remainder trust (the Seminary) to be changed and, therefore, the beneficial interest should have been recorded on the Seminary's financial statements in its fiscal year ended July 31, 2003. The fair value as of July 31, 2014 for the beneficial interest was approximately \$2.5 million, which was recognized as a permanently restricted gift of beneficial interests in split-interest agreements during the Seminary's fiscal year ending July 31, 2014. While we acknowledge the historical nature of this item, we recommend that the Seminary review all trust agreements of which it has been notified to ensure that its beneficial interests in split-interest agreements are recorded in accordance with accounting principles generally accepted in the United States of America.

Status: Corrective action taken.