

Southeastern Baptist Theological Seminary, Inc.

Report to the Audit and Investment Committee of the
Board of Trustees
November 10, 2016



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November 10, 2016

Audit and Investment Committee of the Board of Trustees
Southeastern Baptist Theological Seminary, Inc.
Wake Forest, North Carolina

Attention: Audit and Investment Committee of the Board of Trustees

We are pleased to present this report related to our audit of the consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and subsidiary (the Seminary) for the year ended July 31, 2016. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Seminary's financial reporting process.

This report is intended solely for the information and use of the Audit and Investment Committee, the Board of Trustees, and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the Seminary.

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Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	<p>Our responsibilities under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> issued by the Comptroller General of the United States have been described to you in our arrangement letter dated June 13, 2016. Our audit of the consolidated financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.</p>
Overview of the Planned Scope and Timing of the Financial Statement Audit	<p>We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.</p>
Accounting Policies and Practices	<p>Preferability of Accounting Policies and Practices Under generally accepted accounting principles (GAAP), in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Seminary. The Seminary did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.</p> <p>Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Management's Judgments and Accounting Estimates Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p>
Audit Adjustments	<p>During the course of our audit, we proposed two audit adjustments, one related to the Fulp Charitable Remainder Trust, the valuation for which had not been updated as of July 31, 2016. The effect of the proposed audit adjustment was an increase in the value of beneficial interests in split-interest agreements on the consolidated statement of financial position and an increase to the change in value of beneficial interests in split-interest agreements on the consolidated statement of activities in the amount of \$81,504 as of and for the year ended July 31, 2016.</p>

Area	Comments
Uncorrected Misstatements	<p>During the course of our audit, we noted two uncorrected misstatements. The first uncorrected misstatement relates to management not recording the rent expense associated with the Flaherty Farms lease agreement in accordance with GAAP. GAAP requires rent expense be recognized on a straight-line basis over the term of the rental agreement. The impact of this uncorrected misstatement is an increase to a deferred rent liability on the consolidated statement of financial position and an increase in rental expense on the consolidated statement of activities in the amount of \$45,720 as of and for the year ended July 31, 2016. The second uncorrected item relates to a stock gift that was received prior to year-end but was not recognized until fiscal 2017. The effect of this uncorrected item was an understatement of contribution revenue and assets of \$50,283. The net effect of both uncorrected items was an understatement of assets of \$50,823, liabilities of \$45,720 and net assets of \$4,563.</p>
Disagreements With Management	<p>We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the consolidated financial statements.</p>
Consultations With Other Accountants	<p>We are not aware of any consultations management had with other accountants about accounting or auditing matters.</p>
Significant Issues Discussed With Management	<p>No significant issues arising from the audit were discussed with or were the subject of correspondence with management.</p>
Significant Difficulties Encountered in Performing the Audit	<p>We did not encounter any significant difficulties in dealing with management during the audit.</p>
Significant Written Communications Between Management and Our Firm	<p>Copies of significant written communications between our firm and the management of the Company, including the representation letter provided to us by management, are attached as Exhibit A. In addition, we have communicated to management that we have not identified any material weaknesses, which is also attached as Exhibit A.</p>

Summary of Significant Accounting Estimates Year Ended July 31, 2016

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Seminary's July 31, 2016, consolidated financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Postretirement Benefit Obligation	The Seminary recognizes the underfunded status of its defined benefit postretirement plan as a liability in the consolidated statement of financial position in accordance with the Compensation - Retirement Benefits Topic of the FASB Accounting Standards Codification.	Management utilizes a third-party specialist to perform an actuarial calculation to estimate the Seminary's liability. The third-party utilizes several actuarial assumptions including a discount rate, expected long-term health care cost increases and weighted average remaining service for active participants.	We believe management's estimates are reasonable based on the procedures we performed. The audit and investment committee and management should monitor the assumptions utilized by the third-party for reasonableness on an annual basis.
Beneficial Interests in Split-Interest Agreements	Beneficial interests in split-interest agreements are recorded based primarily on the fair value of the assets held in trust.	Management estimates the fair value based on investment statements received from the trustees of the trusts, and published mortality tables and discount rates, where applicable.	We believe management's estimate is reasonable based on the procedures we performed.
Value of Contributed Stock in a Privately-Held Corporation	A third-party contributed shares in a privately-held corporation to the Seminary several years ago. The estimated fair value is recognized in the Seminary's consolidated financial statements.	Management evaluates the estimated fair value of this stock through analysis of the privately-held corporation's Earnings Before Interest, Taxes, Depreciation and Amortization.	We believe management's estimate is reasonable based on the procedures we performed. The audit and investment committee and management should continue to monitor the privately held corporation's financial performance and activity in the corporation's stock to identify potential impairments in the value recorded on the consolidated statement of financial position.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Allowance for Doubtful Accounts	Student accounts receivable are carried at the original invoice amount 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.	We believe management's estimate is reasonable based on the procedures we performed. The audit and investment committee should monitor the estimation process to ensure student accounts receivable are carried at their estimated net collectible amounts.

Exhibit A—Significant Written Communications Between Management and Our Firm



November 10, 2016

RSM US LLP
1201 Edwards Mill Road, Suite 300
Raleigh, North Carolina 27607

This representation letter is provided in connection with your audits of the 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, 2016 and 2015, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements, for the purpose of expressing an opinion on whether the consolidated financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of November 10, 2016:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated June 13, 2016, for the preparation and fair presentation of the consolidated financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the consolidated financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. We have received a determination from the Internal Revenue Service that we are exempt from federal income taxes as a Section 501(c)(3) not-for-profit corporation, and we have complied with the IRS regulations regarding this exemption.

9. The following have been properly recorded and/or disclosed in the consolidated financial statements:
 - a. All recordable contributions, by appropriate net asset class.
 - b. Reclassifications between net asset classes.
 - c. Allocations of functional expenses based on a reasonable basis.
 - d. Composition of assets in amounts needed to comply with all donor restrictions.
 - e. Deferred revenue.
 - f. Board designated unrestricted net assets.
10. As of and for the year ended July 31, 2016, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Description	Effect—Debit (Credit)				
	Assets	Liabilities	Net Assets	Revenue	Expense
Reversal of opening misstatement	\$ -	\$ -	\$ -	\$ -	\$ -
Current period misstatements:					
To defer rent expense	-	(45,720)	-	-	45,720
To adjust gift to proper period	50,283			(50,283)	
Total Statement of Activities effect			(4,563)	<u>\$ (50,283)</u>	<u>\$ 45,720</u>
Statement of Financial Position effect	<u>\$ 50,283</u>	<u>\$ (45,720)</u>	<u>\$ (4,563)</u>		

Information Provided

11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.
13. We have disclosed to you the results of our assessment of risk that the consolidated financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity's consolidated financial statements involving:

- a. Management.
 - b. Employees who have significant roles in the internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's consolidated financial statements received in communications from employees, former employees, regulators, or others.
16. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements. Additionally, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
17. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the consolidated financial statements and we have not consulted legal counsel concerning litigation or claims.
18. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.
19. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize, and report financial data.
20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Compliance Considerations

In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm that management:

21. Is responsible for:
- a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Seminary.
 - b. Establishing and maintaining effective internal control over financial reporting.
22. Has indicated that there are no instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
23. Has indicated that there are no instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
24. Has indicated that there are no instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

25. Has indicated that there are no instances fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or abuse that the auditor reports.
26. Has a process to track the status of audit findings and recommendations.
27. Has identified for the auditor previous audits, attestation engagements, and other studies related to the audit objectives, if any, and whether related recommendations have been implemented.
28. Has provided views on the auditor's reported findings, conclusions, and recommendations, as well as management's planned corrective actions, if any, for the report.
29. Acknowledges its responsibilities as it relates to nonaudit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; that it evaluates the adequacy and results of the services performed; and it accepts responsibility for the results of the services.

Supplementary Information

30. With respect to supplementary information presented in relation to the consolidated financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. When supplementary information is not presented with the audited consolidated financial statements, we will make the audited consolidated financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
31. With respect to the schedule of expenditures of state awards presented as required by *Government Auditing Standards*, North Carolina General Statute 143C-6-23, and the North Carolina State Education Assistance Authority (NCSEAA), to supplement the basic consolidated financial statements:
 - a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP and the standards applicable to the financial audits contained in *Government Auditing Standards*, North Carolina General Statute 143C-6-23 and the NCSEAA.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.

32. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary



Dr. Daniel Akin
President



Mr. Ryan Hutchinson
Executive Vice President for Operations



Mr. Christopher Hlavacek
Associate Vice President for Finance



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To the Audit and Investment Committee of
Southeastern Baptist Theological Seminary, Inc.
Wake Forest, North Carolina

In planning and performing our audit of the consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and Subsidiary (the Seminary) as of and for the year ended July 31, 2016, 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, we considered the Seminary's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be material weaknesses. 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.

This communication is intended solely for the information and use of the Audit and Investment Committee of the Board of Trustees, the Southern Baptist Convention and management, and is not intended to be and should not be used by anyone other than these specified parties.

RSM US LLP

Raleigh, North Carolina
November 10, 2016

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