

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Financial and Compliance Report
July 31, 2018

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Officers of Board of Trustees

Marty Jacumin
Chairman

Jeremy Freeman
Vice Chairman

Charles Cranford
Treasurer

Becky Gardner
Secretary

Officers of Administration

Dr. Daniel L. Akin
President

Ryan R. Hutchinson
Executive Vice President for Operations

Contents

Independent auditor's report	1-2
<hr/>	
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	8-24
Supplementary information	
Statements of activities information	
Cooperative Program, Southern Baptist Convention	25
Schedule of expenditures of state awards	26
Note to schedule of expenditures of state awards	27
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>	28-29
Schedule of findings and questioned costs	30
Summary schedule of prior audit findings	31



RSM US LLP

Independent Auditor's Report

To the Board of Trustees
Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of July 31, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Baptist Theological Seminary, Inc. and Subsidiary as of July 31, 2018 and 2017, and the changes in their net assets and their 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of state awards as required by North Carolina General Statute 143C-6-23 and the North Carolina State Education Assistance Authority is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 15, 2018 and October 16, 2017, on our consideration of Southeastern Baptist Theological Seminary, Inc. and Subsidiary'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.

RSM US LLP

Raleigh, North Carolina
October 15, 2018

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Consolidated Statements of Financial Position
July 31, 2018 and 2017**

	2018	2017
Assets		
Cash	\$ 13,901,449	\$ 12,166,371
Accounts and notes receivable, less allowance for doubtful accounts 2018 \$230,627; 2017 \$201,956	881,664	670,312
Prepaid expenses and other assets	1,098,004	959,516
Investments	28,738,009	28,090,538
Property and equipment, net	35,994,395	36,431,374
Beneficial interests in split-interest agreements	5,865,464	6,001,771
	<hr/>	<hr/>
Total assets	\$ 86,478,985	\$ 84,319,882
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other accrued expenses	\$ 1,484,271	\$ 1,216,764
Student deposits	726,547	716,997
Deferred revenue	1,401,111	970,401
Postretirement benefit liability	9,768,820	10,555,628
Bonds payable, net of unamortized debt issuance costs	4,490,643	5,075,675
	<hr/>	<hr/>
Total liabilities	17,871,392	18,535,465
Commitments and contingencies		
Net assets:		
Unrestricted	33,452,079	31,779,064
Temporarily restricted	9,486,120	8,447,164
Permanently restricted	25,669,394	25,558,189
	<hr/>	<hr/>
Total net assets	68,607,593	65,784,417
	<hr/>	<hr/>
Total liabilities and net assets	\$ 86,478,985	\$ 84,319,882

See notes to consolidated financial statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Consolidated Statements of Activities
Years Ended July 31, 2018 and 2017**

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and other support:				
Gross tuition and fees	\$ 14,309,502	\$ -	\$ -	\$ 14,309,502
Less institutional grants	2,871,892	-	-	2,871,892
	<u>11,437,610</u>	-	-	<u>11,437,610</u>
Sales and services of auxiliary enterprises	5,094,273	-	-	5,094,273
SBC Cooperative Program	7,962,862	-	-	7,962,862
Private gifts and bequests	1,305,663	2,567,847	-	3,873,510
Investment return designated for current operations	233,039	1,048,282	-	1,281,321
Distributions received from beneficial interests in split-interest agreements	-	120,894	-	120,894
Other income	367,731	21,987	-	389,718
Net assets released from program restrictions	3,402,865	(3,402,865)	-	-
Total revenues, gains and other support	<u>29,804,043</u>	<u>356,145</u>	-	<u>30,160,188</u>
Expenses:				
Educational and general:				
Instruction	12,088,164	-	-	12,088,164
Administrative and general	9,113,733	-	-	9,113,733
Operation and maintenance of plant	2,895,790	-	-	2,895,790
Total educational and general	<u>24,097,687</u>	-	-	<u>24,097,687</u>
Auxiliary enterprises	5,545,997	-	-	5,545,997
Total expenses	<u>29,643,684</u>	-	-	<u>29,643,684</u>
Change in net assets from operations	160,359	356,145	-	516,504
Other changes:				
Private gifts and bequests	-	355,613	248,383	603,996
Gain on sale of disposal of property and equipment	-	-	-	-
Loss on asset held for sale	-	-	-	-
Investment return in excess of amounts designated for current operations	89,288	516,604	-	605,892
Change in value of beneficial interests in split-interest agreements	-	871	(137,178)	(136,307)
Reclassification of underwater endowments	7,098	(7,098)	-	-
Net assets released from restrictions	183,179	(183,179)	-	-
Changes in postretirement benefit liability other than net periodic postretirement benefit costs	1,233,091	-	-	1,233,091
Change in net assets	<u>1,673,015</u>	<u>1,038,956</u>	<u>111,205</u>	<u>2,823,176</u>
Net assets:				
Beginning	<u>31,779,064</u>	<u>8,447,164</u>	<u>25,558,189</u>	<u>65,784,417</u>
Ending	<u>\$ 33,452,079</u>	<u>\$ 9,486,120</u>	<u>\$ 25,669,394</u>	<u>\$ 68,607,593</u>

See notes to consolidated financial statements.

2017

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 12,900,351	\$ -	\$ -	\$ 12,900,351
2,527,556	-	-	2,527,556
10,372,795	-	-	10,372,795
4,516,031	-	-	4,516,031
8,318,390	-	-	8,318,390
986,210	802,132	-	1,788,342
171,830	1,061,566	-	1,233,396
-	100,991	-	100,991
272,932	22,299	-	295,231
2,507,049	(2,507,049)	-	-
27,145,237	(520,061)	-	26,625,176
11,633,375	-	-	11,633,375
9,093,790	-	-	9,093,790
2,812,490	-	-	2,812,490
23,539,655	-	-	23,539,655
4,980,574	-	-	4,980,574
28,520,229	-	-	28,520,229
(1,374,992)	(520,061)	-	(1,895,053)
-	59,020	418,604	477,624
473,057	-	-	473,057
-	-	(7,525)	(7,525)
146,110	537,784	-	683,894
-	696	(37,895)	(37,199)
25,482	(25,482)	-	-
1,001,699	(1,001,699)	-	-
2,264,414	-	-	2,264,414
2,535,770	(949,742)	373,184	1,959,212
29,243,294	9,396,906	25,185,005	63,825,205
\$ 31,779,064	\$ 8,447,164	\$ 25,558,189	\$ 65,784,417

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended July 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 2,823,176	\$ 1,959,212
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	1,897,490	1,881,882
Change in value of beneficial interests in split-interest agreements	136,307	37,199
Bad debt expense	31,423	28,204
Loss on disposal of asset held for sale	-	7,525
Realized and unrealized gains on investments	(1,015,160)	(1,253,455)
Gain on sale of disposal of property and equipment	-	(473,057)
Contributions restricted for long-term purposes	(248,383)	(418,604)
Contributions restricted for property and equipment	(355,613)	(59,020)
Increase in:		
Accounts and notes receivable	(242,775)	(40,215)
Prepaid expenses and other assets	(138,488)	(496,198)
Increase (decrease) in:		
Accounts payable and other accrued expenses	267,507	37,427
Student deposits	9,550	53,471
Deferred revenue	430,710	78,129
Postretirement benefit liability	(786,808)	(1,454,619)
Net cash provided by (used in) operating activities	2,808,936	(112,119)
Cash flows from investing activities:		
Proceeds from sale of investments	32,796,476	10,978,885
Purchase of investments	(32,428,787)	(12,418,349)
Purchases of property and equipment	(1,451,207)	(1,278,521)
Proceeds from sale of property and equipment	-	1,681,738
Proceeds from sale of asset held for sale	-	12,475
Net cash used in investing activities	(1,083,518)	(1,023,772)

(Continued)

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)
Years Ended July 31, 2018 and 2017

	2018	2017
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Long-term purposes	\$ 248,383	\$ 418,604
Property and equipment	355,613	59,020
Other financing activities:		
Payments on bonds payable	(594,336)	(575,004)
Net cash provided by (used in) financing activities	9,660	(97,380)
Net change in cash	1,735,078	(1,233,271)
Cash:		
Beginning	12,166,371	13,399,642
Ending	\$ 13,901,449	\$ 12,166,371
Supplemental disclosures of cash flow information:		
Cash payments for interest and bond fees	\$ 125,451	\$ 99,718

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 either fiscal year and carries no assets or liabilities at July 31, 2018 and 2017. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation: In preparing its consolidated 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 \$7,446,622 and \$5,407,586 at July 31, 2018 and 2017, 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.

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

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

Valuation of investments: Investments 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. In the case of certain less marketable investments, fair value is established by using the net asset value (NAV) of each investment fund as provided by the investment fund manager.

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 effective interest method. Unamortized debt issuance costs are presented as a deduction to the bonds payable on the consolidated statements of financial position.

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

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 consolidated statements of financial position.

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

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

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

Operating and non-operating activities: The consolidated 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 consolidated 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 maintenance of plant 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.

Fundraising expenses: Fundraising expenses totaled approximately \$550,000 and \$500,000 for the years ended July 31, 2018 and 2017, 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.

Reclassifications: In certain instances, amounts previously reported in the 2017 financial statements have been reclassified to conform to the 2018 presentation. Such reclassifications had no effect on net assets or change in net assets as previously reported.

Subsequent events: The Seminary has evaluated its subsequent events (events occurring after July 31, 2018) through October 15, 2018, which represents the date the consolidated 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 June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Receivable and Contributions Made*, which provides guidance on whether transactions should be accounted for as contributions within the scope of ASC 958, or as exchange transactions subject to other guidance (generally ASC 606). ASU 2018-08 will be effective for fiscal years beginning after December 15, 2018 (the Seminary's fiscal year 2020) with early adoption permitted. ASU 2018-08 should be applied on a modified prospective basis whereby it is applied to agreements that are not completed as of the effective date, or entered into after the effective date. Management has not yet evaluated the impact the adoption of this guidance will have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The new guidance improves the presentation of net periodic pension cost and net periodic postretirement benefit cost. The guidance will require an employer to report the service cost component of net benefit cost in the same line item as other compensation costs arising from services rendered, present the other components of net benefit cost in the statement of activities separately from the service cost component and outside a subtotal of income from operations and allow only the service cost component to be eligible for capitalization when applicable. The guidance in this update will be effective for the Seminary's 2020 fiscal year. Management has not yet evaluated the impact of this update on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for Profit Entities*. The guidance in this ASU requires a change in the presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources, and the changes in those resources, to donors, grantors, creditors and other users. These changes include qualitative and quantitative requirements in the areas of net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows. The guidance in this update will be effective for the Seminary's 2019 fiscal year. Management has not yet evaluated the impact of this update on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statement of activities. The guidance in this update will be effective for the Seminary's 2021 fiscal year. Management has not yet evaluated the impact of this update on the consolidated financial statements.

In May 2014, the FASB issued 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. 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 by subsequently issued ASUs, will be effective for the Seminary's 2020 fiscal year with early adoption permitted with certain restrictions. Management has not evaluated the impact of this update on the consolidated financial statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Investments

Investments at July 31, 2018 and 2017, consist of the following:

	2018	2017
Short-term cash investments	\$ 7,130,103	\$ 1,169,375
Privately held common stock	659,000	659,000
Equities	4,880,715	6,998,572
Fixed income securities	-	6,303,868
Mutual funds and exchange-traded funds	11,868,191	10,006,997
Mortgage-backed securities	-	2,952,726
Alternative investments	4,200,000	-
	<u>\$ 28,738,009</u>	<u>\$ 28,090,538</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.

The following schedules summarize the investment return and its classification in the consolidated statements of activities for the years ended July 31, 2018 and 2017:

	2018			
	Unrestricted	Temporarily	Permanently	Total
	Net Assets	Restricted Net Assets	Restricted Net Assets	
Dividends and interest, net of expenses	\$ 131,836	\$ 740,217	\$ -	\$ 872,053
Net realized and unrealized gains	190,491	824,669	-	1,015,160
Total return on investments	<u>322,327</u>	<u>1,564,886</u>	<u>-</u>	<u>1,887,213</u>
Investment return designated for current operations	<u>233,039</u>	<u>1,048,282</u>	<u>-</u>	<u>1,281,321</u>
Investment return in excess of amounts designated for current operations	<u>\$ 89,288</u>	<u>\$ 516,604</u>	<u>\$ -</u>	<u>\$ 605,892</u>
	2017			
	Unrestricted	Temporarily	Permanently	Total
	Net Assets	Restricted Net Assets	Restricted Net Assets	
Dividends and interest, net of expenses	\$ 91,819	\$ 572,016	\$ -	\$ 663,835
Net realized and unrealized gains	226,121	1,027,334	-	1,253,455
Total return on investments	<u>317,940</u>	<u>1,599,350</u>	<u>-</u>	<u>1,917,290</u>
Investment return designated for current operations	<u>171,830</u>	<u>1,061,566</u>	<u>-</u>	<u>1,233,396</u>
Investment return in excess of amounts designated for current operations	<u>\$ 146,110</u>	<u>\$ 537,784</u>	<u>\$ -</u>	<u>\$ 683,894</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

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, 2018 and 2017, were \$197,822 and \$192,038, respectively.

Note 3. Property and Equipment

Property and equipment at July 31, 2018 and 2017, consisted of the following:

	2018	2017
Land	\$ 1,674,247	\$ 1,674,247
Land improvements	2,279,418	2,257,637
Buildings	53,131,962	52,152,902
Equipment	11,697,507	11,239,504
Construction in progress	138,518	228,160
	<u>68,921,652</u>	<u>67,552,450</u>
Less accumulated depreciation	<u>32,927,257</u>	<u>31,121,076</u>
	<u>\$ 35,994,395</u>	<u>\$ 36,431,374</u>

Depreciation and amortization expense of property and equipment amounted to \$1,888,186 and \$1,872,579 for the years ended July 31, 2018 and 2017, respectively.

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.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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.

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 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.

Alternative investments: Investments include investments in private funds and other non-publicly traded funds. These investments are valued at NAV per share for each investment provided by the investment manager.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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.

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, 2018 and 2017:

	2018			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Short-term cash investments	\$ 7,058,946	\$ 71,157	\$ -	\$ 7,130,103
Privately held common stock	-	-	659,000	659,000
Equities:				
U.S. mid cap	1,988,891	-	-	1,988,891
U.S. small cap	893,659	-	-	893,659
Developed markets	1,998,165	-	-	1,998,165
Total equities	4,880,715	-	-	4,880,715
Mutual funds and exchange-traded funds:				
Domestic bond funds	3,904,329	-	-	3,904,329
International stock funds	5,325,497	-	-	5,325,497
Domestic stock funds	2,638,365	-	-	2,638,365
Total mutual funds and exchange-traded funds	11,868,191	-	-	11,868,191
Alternative investments*				4,200,000
Total investments	23,807,852	71,157	659,000	28,738,009
Beneficial interests in split-interest agreements				
	-	-	5,865,464	5,865,464
Total financial assets	\$ 23,807,852	\$ 71,157	\$ 6,524,464	\$ 34,603,473

*In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

	2017			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Short-term cash investments	\$ -	\$ 1,169,375	\$ -	\$ 1,169,375
Privately held common stock	-	-	659,000	659,000
Equities:				
U.S. large cap	4,777,284	-	-	4,777,284
U.S. mid cap	1,122,515	-	-	1,122,515
U.S. small cap	1,098,773	-	-	1,098,773
Developed markets	-	-	-	-
Total equities	6,998,572	-	-	6,998,572
Fixed income securities:				
U.S. Government and agencies	-	1,917,143	-	1,917,143
Corporate	-	4,386,725	-	4,386,725
Total fixed income securities	-	6,303,868	-	6,303,868
Mutual funds and exchange-traded funds:				
Domestic bond funds	2,005,149	-	-	2,005,149
Commodity funds	1,260,574	-	-	1,260,574
International stock funds	5,918,926	-	-	5,918,926
Real estate funds	822,348	-	-	822,348
Total mutual funds and exchange-traded funds	10,006,997	-	-	10,006,997
Mortgage-backed securities	-	2,952,726	-	2,952,726
Total investments	17,005,569	10,425,969	659,000	28,090,538
Beneficial interests in split-interest agreements				
	-	-	6,001,771	6,001,771
Total financial assets	\$ 17,005,569	\$ 10,425,969	\$ 6,660,771	\$ 34,092,309

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, 2018 and 2017:

	Privately Held Common Stock	Beneficial in Split-Interest Agreements
Ending balance, July 31, 2016	\$ 659,000	\$ 6,038,970
Distributions from split-interest agreements	-	(100,991)
Change in value before distributions	-	63,792
Ending balance, July 31, 2017	659,000	6,001,771
Distributions from split-interest agreements	-	(120,894)
Change in value before distributions	-	(15,413)
Ending balance, July 31, 2018	\$ 659,000	\$ 5,865,464

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.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

The following table sets forth a summary of the Seminary's investments with a reported NAV or equivalent:

Investment	July 31, 2018	July 31, 2017	July 31, 2018 Unfunded Commitment	Redemption Frequency and Notice Period	Other Redemption Restrictions
Alternative investments:					
Undiscovered Value Fund, Ltd. (a)	\$ 4,200,000	\$ -	\$ -	Not predetermined, 30-day notice is required	12-month lock-up period

- (a) Seeks long-term capital appreciation while investing in various stocks, corporate bonds, convertible bonds, warrants and other equity-based securities.

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, 2018 and 2017, was \$999,137 and \$1,015,991, 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.

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, 2018 and 2017:

	2018	2017
Service cost-benefits attributable to service during the year	\$ 384,740	\$ 445,305
Interest on accumulated postretirement benefit obligation	410,683	396,504
Recognition of actuarial loss	-	279,484
	<u>\$ 795,423</u>	<u>\$ 1,121,293</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Postretirement Benefits (Continued)

The accumulated postretirement benefit obligation recognized on the accompanying consolidated statements of financial position includes the following components and activity as of and for the years ended July 31, 2018 and 2017:

	2018	2017
Benefit obligation at beginning of year	\$ 10,555,628	\$ 12,010,247
Service cost-benefits attributable to service during the year	384,740	445,305
Interest on accumulated postretirement benefit obligation	410,683	396,504
Benefits paid by the Seminary	(335,106)	(311,498)
Actuarial gain	(46,682)	(1,546,258)
Effect of change in economic assumptions	(84,108)	-
Effect of change in discount rate assumption	(703,743)	(645,903)
Effect of change in mortality, withdrawal and trend assumptions	(412,592)	207,231
Benefit obligation at end of year	<u>\$ 9,768,820</u>	<u>\$ 10,555,628</u>

Accumulated postretirement benefit obligation included the following component that has not yet been recognized as a component of net periodic postretirement benefit costs at July 31, 2018 and 2017, but which has 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, 2018 and 2017:

	2018	2017
Net experience (gains) losses	<u>\$ (60,612)</u>	<u>\$ 1,172,479</u>

The following amounts included in accumulated postretirement benefit obligation at July 31, 2018, that have not yet been recognized as components of net periodic postretirement benefit costs are expected to be recognized as components of periodic postretirement benefit costs in 2019:

Net experience gains	\$ (60,612)
----------------------	-------------

For measurement purposes, a 7.70% weighted average annual rate of increase in per capita medical and prescription drug costs of covered benefits was assumed for 2018 with such annual rate of increase gradually declining to 5.00% by 2028. If assumed health care cost trend rates were increased by one percentage point in each year, the accumulated postretirement benefit obligation at July 31, 2018 and 2017, would be increased by approximately \$1,395,000 (14.28%) and \$1,489,000 (14.10%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2018 and 2017, would be increased by approximately \$141,000 (17.73%) and \$29,000 (3.49%), 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, 2018 and 2017, would be decreased by approximately \$1,120,000 (11.46%) and \$1,201,000 (11.37%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2018 and 2017, would be decreased by approximately \$111,000 (13.91%) and \$116,000 (13.84%), respectively.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Postretirement Benefits (Continued)

The weighted average discount rate used in estimating the benefit obligation and net periodic benefit cost at July 31, 2018 and 2017, was 4.14% and 3.66%, respectively.

The benefits expected to be paid by the Seminary in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows:

	<u>Amount</u>
Years ending July 31:	
2019	\$ 472,107
2020	480,437
2021	513,419
2022	523,164
2023	520,721
2024-2028	2,785,563

Note 8. Line of Credit

At July 31, 2018 and 2017, 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, 2018 and 2017. The outstanding balance and all accrued but unpaid interest will be due on February 12, 2020. 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 \$4,500,000.

Note 9. Bonds Payable and Bank Held Term Loan

Bonds payable at July 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Principal balance, bonds payable	\$ 4,554,992	\$ 5,149,328
Less unamortized debt issuance costs	64,349	73,653
Bonds payable, net of unamortized debt issuance costs	<u>\$ 4,490,643</u>	<u>\$ 5,075,675</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

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. 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 (2.09% at July 31, 2018), 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.

Total interest expense for the years ended July 31, 2018 and 2017, were \$128,097 and \$99,718, respectively.

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

	<u>Amount</u>
Years ending July 31:	
2019	\$ 616,000
2020	637,332
2021	661,332
2022	687,004
2023	710,000
Thereafter	1,243,324
	<u>\$ 4,554,992</u>

During 2013, the Seminary capitalized \$111,641 of debt issuance costs related to the issuance of the 2013 Bonds. Amortization expense recognized during 2018 and 2017 totaled approximately \$9,000 in each year. Expected amortization is approximately \$9,000 over each of the next seven years.

Note 10. Unrestricted Net Assets

Unrestricted net assets include board-designated amounts for endowment purposes at July 31, 2018 and 2017, of \$5,497,620 and \$5,414,045, respectively. These amounts are affected by investment return and appropriations subsequent to designation.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets as of July 31, 2018 and 2017, are available for the following purposes:

	2018	2017
Purposes restrictions:		
Scholarships	\$ 4,296,726	\$ 3,624,377
Project renovations	1,321,419	1,131,782
Faculty	1,583,680	1,495,721
Institutional support	1,141,089	1,100,580
Lectures and awards	250,928	256,286
Library	120,254	112,930
Other	772,024	725,488
	<u>\$ 9,486,120</u>	<u>\$ 8,447,164</u>

Note 12. Permanently Restricted Net Assets

Permanently restricted net assets as of July 31, 2018 and 2017, are restricted to:

	2018	2017
Investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 9,890,211	\$ 9,790,267
Faculty	8,762,025	8,674,277
Institutional support	5,742,992	5,826,174
Lectures and awards	411,760	411,400
Library	290,983	290,783
Project renovations	271,798	271,798
Remainder trusts	299,625	293,490
	<u>\$ 25,669,394</u>	<u>\$ 25,558,189</u>

Note 13. Net Assets Released From Donor Restrictions

Net assets during the years ended July 31, 2018 and 2017, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows:

	2018	2017
Purpose restrictions accomplished:		
Scholarships	\$ 1,934,882	\$ 1,479,387
Faculty	570,053	462,734
Institutional support	497,818	364,810
Project renovations	183,179	1,001,699
Library	15,509	16,250
Lectures and awards	39,902	20,231
Other	344,701	163,637
	<u>\$ 3,586,044</u>	<u>\$ 3,508,748</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 14. Endowment Funds

The Seminary's endowment funds consist of over 300 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by 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.

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.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 14. Endowment Funds (Continued)

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, 2018 and 2017, the aggregate amount that the fair values of these endowments was below the donor or NCUPMIFA required levels was \$78,679 and \$85,777, 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, 2018 and 2017, appropriations of \$17,223 and \$27,113, respectively, were made on funds with deficiencies.

The following table summarizes changes in endowment net assets for the years ended July 31, 2018 and 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 31, 2016	\$ 3,484,192	\$ 3,147,065	\$ 19,187,638	\$ 25,818,895
Contributions	-	-	418,604	418,604
Interest, other investment income, net of expenses, realized and unrealized gains and other gains	308,686	1,490,109	-	1,798,795
Appropriations of endowment assets for expenditure	(171,830)	(1,061,566)	-	(1,233,396)
Board designation of endowment funds	1,681,738	-	-	1,681,738
Net asset reclassification of underwater endowments	25,482	(25,482)	-	-
Endowment net assets, July 31, 2017	5,328,268	3,550,126	19,606,242	28,484,636
Contributions	-	-	248,383	248,383
Interest, other investment income, net of expenses, realized and unrealized gains and other gains	316,614	1,396,061	-	1,712,675
Appropriations of endowment assets for expenditure	(233,039)	(1,048,282)	-	(1,281,321)
Net asset reclassification of underwater endowments	7,098	(7,098)	-	-
Endowment net assets, July 31, 2018	\$ 5,418,941	\$ 3,890,807	\$ 19,854,625	\$ 29,164,373

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, 2018 and 2017:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:	\$ (78,679)	\$ 3,890,807	\$ 19,854,625	\$ 23,666,753
Board-designated endowment funds	5,497,620	-	-	5,497,620
Total endowment net assets	<u>\$ 5,418,941</u>	<u>\$ 3,890,807</u>	<u>\$ 19,854,625</u>	<u>\$ 29,164,373</u>

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:	\$ (85,777)	\$ 3,550,126	\$ 19,606,242	\$ 23,070,591
Board-designated endowment funds	5,414,045	-	-	5,414,045
Total endowment net assets	<u>\$ 5,328,268</u>	<u>\$ 3,550,126</u>	<u>\$ 19,606,242</u>	<u>\$ 28,484,636</u>

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 \$1,670,054 in each of 2018 and 2017.

At July 31, 2018, the future minimum lease payments under non-cancelable operating leases were as follows:

	Amount
Years ending July 31:	
2019	\$ 1,670,054
2020	1,670,054
2021	1,670,054
2022	1,670,054
2023	1,670,054
Thereafter	11,999,868
	<u>\$ 20,350,138</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. 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, 2018 and 2017**

Cooperative Program, Southern Baptist Convention	2018	2017
Churches/individuals	\$ 233,474	\$ 218,799
Alabama	734,726	730,304
Alaska	9,096	9,308
Arizona	53,312	38,815
Arkansas	375,438	375,066
California	90,003	93,290
Colorado	23,970	24,029
Dakota	6,144	3,531
District of Columbia	571	554
Florida	597,054	758,394
Georgia	676,360	707,705
Hawaii Pacific	12,785	20,250
Illinois	94,475	98,821
Indiana	39,808	30,382
Iowa	14,083	12,386
Kansas-Nebraska	31,505	29,290
Kentucky	415,938	427,573
Louisiana	280,806	304,260
Maryland-Delaware	63,629	65,040
Michigan	12,550	13,050
Minnesota-Wisconsin	8,224	4,676
Mississippi	472,456	497,983
Missouri	245,892	257,707
Montana	7,166	6,157
Nevada	23,698	23,500
New England	6,742	7,132
New Mexico	34,222	27,813
New York	9,825	9,824
North Carolina	474,859	486,604
Northwest	30,764	32,083
Ohio	83,284	84,877
Oklahoma	397,407	422,876
Pennsylvania-South Jersey	11,381	8,991
Puerto Rico/U.S. Virgin Islands	144	180
South Carolina	448,409	467,592
Tennessee	627,566	636,058
Texas, BGCT	403,908	443,124
Texas, SBTC	614,680	650,113
Utah-Idaho	7,926	7,269
Virginia, BGAV	33,328	36,479
Virginia, SBCV	176,863	184,232
West Virginia	19,690	20,162
Wyoming	4,461	4,732
Other	54,235	37,379
Total cooperative program	\$ 7,962,862	\$ 8,318,390

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Schedule of Expenditures of State Awards

Year Ended July 31, 2018

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>\$ 348,651</u>
Total state awards	<u><u>\$ 348,651</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.

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 statements of financial position as of July 31, 2018, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated October 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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.

RSM US LLP

Raleigh, North Carolina
October 15, 2018

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Schedule of Findings and Questioned Costs
Year Ended July 31, 2018**

Section I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Internal control over financial reporting:

Material weakness(es) identified?

Significant deficiency(ies) identified?

Noncompliance material to financial statements noted?

	<u>Unmodified</u>		
_____	Yes	<u> X </u>	No
_____	Yes	<u> X </u>	None reported.
_____	Yes	<u> X </u>	No

Section II. Financial Statement Findings

None reported.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Summary Schedule of Prior Audit Findings
Year Ended July 31, 2018**

None reported.