

SOUTHEASTERN BAPTIST
THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY

Consolidated Financial Statements
With Independent Auditors' Report

July 31, 2023 and 2022

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities–2023	4
Consolidated Statement of Activities–2022	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Supplementary Information	
Independent Auditors' Report on Supplementary Information	34
Financial Responsibility Supplemental Schedule	35
Notes to Financial Responsibility Supplemental Schedule	38

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Southeastern Baptist Theological
Seminary, Inc. and Subsidiary
Wake Forest, North Carolina

Opinion

We have audited the accompanying consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and Subsidiary (a nonprofit corporation), which comprise the consolidated statements of financial position as of July 31, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southeastern Baptist Theological Seminary, Inc. and Subsidiary as of July 31, 2023 and 2022, and the changes in its consolidated net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of Southeastern Baptist Theological Seminary, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southeastern Baptist Theological Seminary, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Board of Trustees
Southeastern Baptist Theological
Seminary, Inc. and Subsidiary
Wake Forest, North Carolina

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Southeastern Baptist Theological Seminary, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southeastern Baptist Theological Seminary, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Capin Crouse LLP

Lawrenceville, Georgia
December 8, 2023

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Consolidated Statements of Financial Position

	July 31,	
	2023	2022
ASSETS:		
Cash and cash equivalents	\$ 3,958,666	\$ 23,768,601
Students accounts receivable–net	493,597	719,212
Government funds receivable	3,880,706	-
Prepaid expenses and other assets	1,475,620	1,302,924
Operating lease right-of-use assets	10,598,405	-
Investments	63,197,623	39,280,289
Beneficial interest in trusts held by others	6,076,441	5,471,220
Property, plant, and equipment–net	34,090,571	34,557,169
	\$ 123,771,629	\$ 105,099,415
Total Assets	\$ 123,771,629	\$ 105,099,415
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 480,269	\$ 461,784
Accrued expenses and other liabilities	1,674,110	1,495,141
Deferred revenue	1,869,870	1,734,671
Operating lease right-of-use liabilities	10,918,440	-
Post-retirement benefit obligation	11,157,338	11,768,935
Refundable advance	-	3,509,900
Total liabilities	26,100,027	18,970,431
Net assets:		
Without donor restrictions	44,466,385	37,378,506
With donor restrictions:		
Restricted by purpose or time	19,083,729	15,581,598
Restricted in perpetuity	34,121,488	33,168,880
	53,205,217	48,750,478
Total net assets	97,671,602	86,128,984
Total Liabilities and Net Assets	\$ 123,771,629	\$ 105,099,415

See notes to consolidated financial statements

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Consolidated Statement of Activities

Year Ended July 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT:			
Net tuition and fees	\$ 12,038,733	\$ -	\$ 12,038,733
Auxiliary enterprises	5,481,568	-	5,481,568
Denominational support	7,106,929	-	7,106,929
Private gifts and grants	1,194,284	5,623,337	6,817,621
Investment return designated for operating activities	275,007	1,527,993	1,803,000
Employee retention credit	3,880,706	-	3,880,706
Gain on extinguishment of debt	3,509,900	-	3,509,900
Other income	545,390	-	545,390
Net assets released from restrictions	5,460,406	(5,460,406)	-
Total Operating Revenues and Other Support	39,492,923	1,690,924	41,183,847
OPERATING EXPENSES:			
Instructional	13,962,730	-	13,962,730
Student services	1,325,725	-	1,325,725
Auxiliary enterprises	6,009,106	-	6,009,106
Institutional support	12,698,008	-	12,698,008
Total Operating Expenses	33,995,569	-	33,995,569
Change in Net Assets from Operating Activities	5,497,354		
NONOPERATING ACTIVITY:			
Investment return net of amount designated for current operations	958,739	2,158,594	3,117,333
Other components of net periodic post-retirement costs	(509,353)	-	(509,353)
Post-retirement related changes other than net periodic post retirement costs	1,141,139	-	1,141,139
Change in value of beneficial interest in trusts held by others	-	605,221	605,221
Total Nonoperating Activity	1,590,525	2,763,815	4,354,340
Change in Net Assets	7,087,879	4,454,739	11,542,618
Net Assets, Beginning of Year	37,378,506	48,750,478	86,128,984
Net Assets, End of Year	\$ 44,466,385	\$ 53,205,217	\$ 97,671,602

See notes to consolidated financial statements

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Consolidated Statement of Activities

Year Ended July 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT:			
Net tuition and fees	\$ 13,613,828	\$ -	\$ 13,613,828
Auxiliary enterprises	5,279,115	-	5,279,115
Denominational support	7,438,243	-	7,438,243
Private gifts and grants	1,221,309	4,681,693	5,903,002
Government grants and contracts	-	2,343,671	2,343,671
Investment return designated for operating activities	280,854	1,334,146	1,615,000
Other income	354,094	-	354,094
Net assets released from restrictions	6,152,443	(6,152,443)	-
Total Operating Revenues and Other Support	34,339,886	2,207,067	36,546,953
OPERATING EXPENSES:			
Instructional	13,364,471	-	13,364,471
Student services	2,198,123	-	2,198,123
Auxiliary enterprises	5,871,231	-	5,871,231
Institutional support	11,531,837	-	11,531,837
Total Operating Expenses	32,965,662	-	32,965,662
Change in Net Assets from Operating Activities	1,374,224		
NONOPERATING ACTIVITY:			
Investment return net of amount designated for current operations	(380,415)	(1,954,510)	(2,334,925)
Other components of net periodic post-retirement costs	(323,622)	-	(323,622)
Post-retirement related changes other than net periodic post retirement costs	973,186	-	973,186
Change in value of beneficial interest in trusts held by others	-	(1,885,971)	(1,885,971)
Total Nonoperating Activity	269,149	(3,840,481)	(3,571,332)
Change in Net Assets	1,643,373	(1,633,414)	9,959
Net Assets, Beginning of Year	35,735,133	50,383,892	86,119,025
Net Assets, End of Year	\$ 37,378,506	\$ 48,750,478	\$ 86,128,984

See notes to consolidated financial statements

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Consolidated Statements of Cash Flows

	Year Ended July 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 11,542,618	\$ 9,959
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,169,150	2,058,855
Non-cash effect of change in accounting principle	39,182	-
Change in value of beneficial interest in trusts held by others	(605,221)	1,885,971
Contributions received for endowment	(332,387)	(778,454)
Net realized and unrealized (gain) loss on investments	(3,637,100)	959,688
Reinvested interest and dividends	(1,123,675)	(704,994)
Loss on disposal of property, plant, and equipment	1,750	20,137
Gain on extinguishment of debt	(3,509,900)	-
Changes in operating assets and liabilities:		
Student accounts receivable	225,615	210,808
Government funds receivable	(3,880,706)	-
Prepaid expenses and other assets	(172,696)	(122,940)
Accounts payable	18,485	3,795
Accrued expenses and other liabilities	459,822	363,768
Deferred revenue	135,199	119,137
Post retirement benefit obligation	(611,597)	(563,097)
Net Cash Provided by Operating Activities	718,539	3,462,633
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	1,643,441	2,130,733
Purchases of investments	(20,800,000)	(900,000)
Purchases of property, plant, and equipment	(1,704,302)	(1,337,477)
Net Cash Used by Investing Activities	(20,860,861)	(106,744)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for investment in endowments	332,387	778,454
Net Cash Provided by Financing Activities	332,387	778,454
Change in Cash and Cash Equivalents	(19,809,935)	4,134,343
Cash and Cash Equivalents, Beginning of Year	23,768,601	19,634,258
Cash, and Cash Equivalents, End of Year	\$ 3,958,666	\$23,768,601
SUPPLEMENTAL DISCLOSURE		
Right-of-use assets obtained in exchange for operating lease obligations	\$ 10,598,405	\$ -

See notes to consolidated financial statements

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

1. NATURE OF ORGANIZATION:

Southeastern Baptist Theological Seminary, Inc. (the Seminary) was founded in 1950 and is an institution of higher learning established and supported through the Cooperative Program by the Southern Baptist Convention (SBC). The Seminary campus is located in Wake Forest, North Carolina. It is governed by the board of trustees (board) who are elected by the SBC. 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's main sources of revenue are tuition and fee income as well as denominational support and contributions from the public.

The Seminary is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Seminary qualifies for charitable contribution deductions under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1). However, income from certain activities not directly related to the Seminary's tax-exempt purpose is subject to taxation as unrelated business income. The Seminary has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made on the consolidated financial statements regarding the *Income Tax* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Seminary does not have any outstanding interest or penalties, and none have been recorded in the consolidated statements of activities for the years ended July 31, 2023 and 2022.

2. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies followed by the Seminary are described below to enhance the usefulness of the consolidated financial statements to the reader. The preparation of the consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Southeastern Baptist Theological Seminary, Inc. and its wholly owned subsidiary, Southeastern Baptist Theological Seminary Foundation, Inc. (the Foundation). The Foundation had no financial transactions during the fiscal year and carries no assets or liabilities at July 31, 2023 and 2022. All significant intercompany accounts and transactions have been eliminated in consolidation.

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CASH AND CASH EQUIVALENTS

Cash equivalents are defined as short-term, highly liquid debt securities that are both readily convertible to cash and have an original maturity of three months or less. The Seminary maintains cash and cash equivalents in financial institutions which may, at times, exceed federally insured limits. At July 31, 2023 and 2022, the amounts in excess of federally insured limits were \$3,972,587 and \$23,560,725, respectively. The Seminary has not experienced any losses on such accounts.

STUDENT ACCOUNTS RECEIVABLE—NET

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. Management determines these allowances for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Student accounts receivable are written off when deemed uncollectible. Recoveries of student accounts 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.

GOVERNMENT FUNDS RECEIVABLE

For the year ended July 31, 2023, the consolidated statements of financial position include government funds receivable for the amount of credit expected to be claimed under the Employee Retention Credit (ERC) which was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Laws and regulations concerning government programs, including the ERC, are complex and subject to varying interpretation. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Seminary's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Seminary. For the year ended July 31, 2023, the amount of receivable outstanding was \$3,880,706. Management fully expects the receivable to be collectible during the year ended July 31, 2024.

INVESTMENTS

Investments in equity securities with readily determinable fair values and all debt securities are recorded at fair value. Other investments are recorded at cost. Interest and dividend income and the realized and unrealized gain or loss on investments is reported in the accompanying consolidated statements of activities. Donated investments are recorded at market value at the date of donation and thereafter carried in conformity with the stated policy.

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS, continued

Alternative investments have been stated at fair values based on the Seminary's share of net asset values derived from the values of the underlying investments as reported by the fund managers or general partners of the private limited partnerships. Management obtains and considers the most recent audited financial statements of such investments when evaluating the overall reasonableness of carrying value. Management believes this method provides a reasonable estimate of fair value. Due to the inherent uncertainty of valuation of investments in limited partnerships, the estimated values may differ significantly from the values that would have been used had a ready market for the limited partnerships existed.

BENEFICIAL INTEREST IN TRUSTS HELD BY OTHERS

Beneficial interest in trusts represent an irrevocable instrument, held by the North Carolina Baptist Foundation and several others, which names the Seminary as an irrevocable remaindermen. The value of the Seminary's interest in the agreements are reported as a beneficial interest in trusts held by others asset.

PROPERTY, PLANT, AND EQUIPMENT—NET

Property and equipment is stated at cost, less accumulated depreciation. Under the Seminary's capitalization policy, any expenditure for buildings less than \$10,000, land improvements less than \$5,000, equipment less than \$5,000, furniture less than \$1,000, and computer equipment less than \$500, are expensed as incurred. The cost of maintenance and repairs are charged to expenses as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Land improvements	40-50
Buildings and improvements	40 (plus actual life prior to 1993)
Furniture, fixtures, and equipment	5-10
Software	5

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

July 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS

The consolidated financial statements report amounts separately by class of net assets.

Without donor restrictions are those which are free of donor-imposed restrictions and all revenues, expenses, gains, and losses that are not net assets with donor restrictions.

With donor restrictions are stipulated by donors for specific operating purposes or the acquisition of property and equipment, are time-restricted, or are required by donors to be held in perpetuity with investment return used for operations and scholarships.

REVENUE AND REVENUE RECOGNITION

Tuition and fees revenue:

For both the traditional and nontraditional programs, tuition revenue is recognized in the reporting period in which the academic programs are delivered. Traditional programs are delivered in the Fall (mid-August to mid-December) and Spring (mid-January to mid-May) academic terms, as well as one Summer term described below. Nontraditional courses are delivered in six-week and twelve-week intervals, with instruction periods beginning each month.

Merit and need-based institutional scholarships are awarded to students to defray the costs of the academic programs, which reduce the amount of revenue recognized. Payments for tuition are due by the start of the academic term.

The Seminary offers one traditional Summer term, starting in early May and ending in mid-August. Revenue for the Summer term is recognized ratably over the term.

Net tuition and fees revenue consist of:

	Year Ended July 31,	
	2023	2022
Tuition and fees	\$ 15,937,349	\$ 17,503,726
Less student aid	(3,898,616)	(3,889,898)
Net tuition and fees	<u>\$ 12,038,733</u>	<u>\$ 13,613,828</u>

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE AND REVENUE RECOGNITION, continued

Auxiliary enterprise revenue:

Auxiliary enterprises exist to furnish goods or services to students, faculty, staff, or incidentally to the general public. Fees charged for auxiliary enterprises are priced to offset the cost of the goods or services provided. The distinguishing characteristic of auxiliary enterprises is that they are managed as an essentially self-supporting activity. Revenues and expenses from auxiliary enterprises are reported as changes in net assets without donor restrictions.

Auxiliary enterprises revenue includes activities for student housing and dining facilities, coffee shops, and the campus bookstore. A small number of institutional scholarships specifically for defraying the costs of residential services are awarded, which reduce the amount of revenue recognized. Payments for housing and dining services are due approximately by the start of the academic term. Dining plans are not offered during the summer term. Performance obligations for housing and dining services are delivered over the academic terms. Consequently, associated revenues are earned and recognized over the course of each term as the services are delivered.

Contributions and support:

The Seminary recognizes support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Seminary. Conditional promises to give with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met.

A portion of the Seminary's revenue is derived from cost-reimbursable federal contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Seminary has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position.

The Seminary reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE AND REVENUE RECOGNITION, continued

Contributions and support, continued:

The Seminary reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the Seminary reports expirations of donor restrictions when donated or acquired assets have been placed in service.

Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law.

EXPENSES

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The Seminary's primary program services are instruction. Expenses reported as student services and auxiliary enterprise are incurred in support of these primary program services.

STUDENT FINANCIAL ASSISTANCE PROGRAMS

The Seminary participates in various programs administered by the Department of Education (ED) and state boards, and the Seminary acts as an agent for the respective agencies. The governmental grants amounts reported exclude funds directly awarded and credited to students under the various federal and state programs; however, substantial portions of the tuition and fees revenue and collection of accounts receivable as of July 31, 2023 and 2022, are dependent upon the Seminary's continued participation in the various programs.

OPERATING AND NONOPERATING ACTIVITIES

The consolidated statements of activities present the changes in net assets of the Seminary from both operating activities and nonoperating activities. Operating revenues and expenses relate primarily to educational programs provided by the Seminary. The portion of investment return appropriated for operations and student scholarships on long-term investments held for endowments and similar purposes under the Seminary's total return spending policy is considered operating revenue.

Nonoperating activities consist primarily of (a) investment return in excess of endowments, (b) other components of net periodic post-retirement costs, (c) post-retirement related changes other than net periodic post-retirement costs, and (d) change in value of beneficial interest in trusts held by others.

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

OPERATING LEASE - RIGHT OF USE ASSETS AND OBLIGATIONS

The Seminary adopted Accounting Standards Update (ASU) No. 2016-02 (see recently adopted accounting standard below) and its related amendments as of August 1, 2022, which resulted in the recognition of operating lease right-of-use assets totaling \$10,598,405 as of July 31, 2023, as well as operating lease liabilities totaling \$10,918,440. The Seminary elected to adopt the transition relief provisions from ASU 2018-11 and recorded the adoption as of August 1, 2022, without restating prior-year amounts. The additional lease disclosures can be found in Note 13.

RECENTLY ADOPTED ACCOUNTING STANDARD

In 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases* (Topic 842 of the FASB Accounting Standards Codification). The amendments in this update require organizations that lease assets to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by the leases. The amendments are effective for fiscal years beginning after December 15, 2021. The Seminary adopted this update for the year ended July 31, 2023. Some of the Seminary's contracts contain the right to control the use of property or assets and are therefore considered leases. The Seminary elected to adopt the transition relief provisions from ASU 2018-11, *Leases* (Topic 842): Targeted Improvements and recorded the impact of adoption as of August 1, 2022, without restating any prior-year amounts. The Seminary also elected the practical expedient and accounting policy election to exclude short-term leases with lease terms of 12 months or less. The additional lease disclosure can be found in Note 13. The effect of the adjustment to the opening balance of net assets totaled \$39,182. As it was deemed immaterial, the net asset difference was adjusted through utilities, alterations, and repairs expenses on the statement of activities and functional expenses. This amount is reported as a non-cash effect of change in accounting principle on the statement of cash flows.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

3. LIQUIDITY AND FUNDS AVAILABLE:

The following reflects the Seminary's financial assets as of the consolidated statements of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statements of financial position date. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

	July 31,	
	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 3,958,666	\$ 23,768,601
Students accounts receivable–net	493,597	719,212
Government funds receivable	3,880,706	-
Investments	63,197,623	39,280,289
Financial assets, at year-end	71,530,592	63,768,102
Less those unavailable for general expenditures within one year:		
Perpetual endowments and accumulated earnings subject to appropriation beyond one year	(35,405,052)	(33,104,347)
Board-designated net assets subject to appropriation beyond one year	(6,329,462)	(5,962,284)
Financial assets available to meet cash needs for general expenditures within one year	\$ 29,796,078	\$ 24,701,471

The Seminary has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Seminary also has a pre-approved available line of credit for up to \$1,500,000 with a bank, which could be drawn upon in the event of an unanticipated liquidity need. At July 31, 2023 and 2022, there were no funds borrowed under this agreement. Additionally, the board-designated quasi endowment funds could be released through board approval for operating cash needs.

4. STUDENT ACCOUNTS RECEIVABLE–NET:

Student accounts receivable–net consists of:

	July 31,	
	2023	2022
Student accounts receivable	\$ 773,246	\$ 992,352
Less allowance for doubtful accounts	(279,649)	(273,140)
	\$ 493,597	\$ 719,212

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

5. INVESTMENTS:

Investments consist of:

	July 31,	
	2023	2022
Held at fair value:		
Equities	\$ 8,762,224	\$ 7,316,019
Mutual funds and exchange-traded funds	2,756,160	6,181,806
U.S. government obligations	1,423,610	-
Corporate bonds	3,511,767	-
Fixed income securities	4,022,951	-
	20,476,712	13,497,825
Held at net asset value:		
Alternative investments:		
Hedge funds	6,025,868	5,540,498
Private equity	2,079,136	1,500,000
Private credit	2,969,223	3,080,803
Real assets (natural resources, farmland, real estate)	13,749,938	10,772,670
	24,824,165	20,893,971
Held at cost:		
Cash and cash equivalents	17,896,746	4,888,493
	17,896,746	4,888,493
	\$ 63,197,623	\$ 39,280,289

Investments are held for the following purposes:

	July 31,	
	2023	2022
Investments held for operations	\$ 20,574,465	\$ -
Investments held for endowments and scholarships	42,623,158	39,280,289
	\$ 63,197,623	\$ 39,280,289

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

5. INVESTMENTS, continued:

Investment income was used for the following purposes:

	Year Ended July 31,	
	2023	2022
Appropriated by the board for operations	\$ 1,803,000	\$ 1,615,000
Nonoperating investment income:		
Without donor restrictions	958,739	(380,415)
With donor restrictions	2,158,594	(1,954,510)
	\$ 4,920,333	\$ (719,925)

6. PROPERTY, PLANT, AND EQUIPMENT—NET:

Property, plant, and equipment—net consists of:

	July 31,	
	2023	2022
Land	\$ 1,674,247	\$ 1,674,247
Land improvements	2,463,216	2,463,216
Buildings and improvements	57,399,978	57,203,867
Furniture, fixtures, and equipment	12,286,900	11,858,095
Software	1,142,905	991,505
	74,967,246	74,190,930
Less accumulated depreciation	(42,346,806)	(40,331,186)
	32,620,440	33,859,744
Construction in progress	1,470,131	697,425
	\$ 34,090,571	\$ 34,557,169

7. LINE OF CREDIT:

At July 31, 2023 and 2022, 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 Secured Overnight Financing Rate (SOFR). There were no outstanding borrowings under the line of credit agreement during the years ended July 31, 2023 and 2022. The outstanding balance and all accrued but unpaid interest will be due on February 12, 2026. The loan agreement associated with the line of credit contains various covenants.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

8. **POSTRETIREMENT BENEFITS:**

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

The following tables provide a reconciliation of the changes in the post-retirement benefit obligation and the assumptions used in the actuarial calculations.

	July 31,	
	2023	2022
Post-retirement benefit obligation at beginning of year:	\$ 11,768,935	\$ 12,332,032
Net periodic post-retirement costs	860,124	752,734
Post-retirement related changes other than net periodic pot-retirement cost	(1,141,139)	(973,186)
Benefits paid	(330,582)	(342,645)
Post-retirement benefit obligation at end of year	\$ 11,157,338	\$ 11,768,935
Net periodic post-retirement benefit costs included in functional expenses:		
Service cost	\$ 350,771	\$ 429,112
Interest cost	509,353	323,622
Net periodic post retirement cost other than service cost	509,353	323,622
	\$ 860,124	\$ 752,734

Net periodic post-retirement cost other than service cost is reported as other components of net periodic post-retirement cost on the consolidated statements of activities.

Post-retirement related changes other than net periodic post-retirement cost, included in nonoperating activities, are as follows:

	July 31,	
	2023	2022
Change in discount rate assumption	\$ (1,615,667)	\$ (3,740,823)
Change in other economic assumptions	702,049	3,406,145
Change in demographic assumptions	-	51,324
Actuarial gain	(227,521)	(689,832)
	\$ (1,141,139)	\$ (973,186)

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

8. POSTRETIREMENT BENEFITS, continued:

Assumptions are made using the weighted-average and assumed annual increases as follows:

	July 31,	
	2023	2022
Discount rate	5.3%	4.3%
Rate of compensation increase	3%	3%
Projected health care trend rate (Pre-65 Medical/Rx)	7.4% - 9.8%	7.3% - 8.4%
Projected health care trend rate (Post-65 Medical/Rx)	4.3% - 7.5%	3.8% - 6.5%
Ultimate rate-Pre-65 (Medical/Rx)	4.4% - 4.9%	4.4% - 4.9%
Ultimate rate-Post-65 (Medical/Rx)	4.3% - 4.9%	3.8% - 4.9%
Year ultimate trend rate is achieved	2031	2030

The mortality basis for the years ended July 31, 2023 and 2022, is based upon the Pri-2012 total dataset tables, using the MP-2021-GFR projection scale.

Future benefits are expected to be paid as follows:

<u>Years Ending July 31,</u>	<u>Amounts</u>
2024	\$ 552,279
2025	544,435
2026	585,834
2027	617,269
2028	657,545
2029-2033	3,746,884
	\$ 6,704,246

9. DISCLOSURES OF FAIR VALUE AND FAIR VALUE MEASUREMENTS:

The *Fair Value Measurements and Disclosure* topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Seminary uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Seminary measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

9. DISCLOSURES OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

Fair values of assets and liabilities measured on a recurring basis at July 31, 2023 and 2022, are as follows:

	Fair Value Measurements at July 31, 2023			
	Total	Level 1	Level 2	Level 3
Beneficial interest in trusts held by others	\$ 6,076,441	\$ -	\$ -	\$ 6,076,441
Investments:				
Equities	8,762,224	8,762,224	-	-
Mutual funds and exchange-traded funds	2,756,160	2,756,160	-	-
U.S. government obligations	1,423,610	-	1,423,610	-
Corporate bonds	3,511,767	-	3,511,767	-
Fixed income securities	4,022,951	4,022,951	-	-
	20,476,712	\$ 15,541,335	\$ 4,935,377	\$ -
Alternative investments, measured at net asset value:				
Hedge funds	6,025,868			
Private equity	2,079,136			
Private credit	2,969,223			
Real assets	13,749,938			
	24,824,165			
Total investments, at fair value	\$ 45,300,877			

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

9. DISCLOSURES OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

	Fair Value Measurements at July 31, 2022			
	Total	Level 1	Level 2	Level 3
Beneficial interest in trusts held by others	\$ 5,471,220	\$ -	\$ -	\$ 5,471,220
Investments:				
Equities	7,316,019	7,316,019	-	-
Mutual funds and exchange-traded funds	6,181,806	6,181,806	-	-
	13,497,825	\$ 13,497,825	\$ -	\$ -
Alternative investments, measured at net asset value:				
Hedge funds	5,540,498			
Private equity	1,500,000			
Private credit	3,080,803			
Real assets	10,772,670			
	20,893,971			
Total investments, at fair value	\$ 34,391,796			

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

9. DISCLOSURES OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

Methods and assumptions used by the Seminary in estimating fair values are as follows:

Beneficial interest in trusts held by others—The fair value of beneficial interest in trusts held by others is based on the value of the Seminary's proportional share of the overall assets held by the other organizations.

Equities, mutual funds, exchange-traded funds, U.S. government obligations, corporate bonds, and fixed income securities—The fair value of these financial instruments is based upon quoted market prices or dealer quotes in an active market.

Alternative investments—Based on valuations for which a readily determinable fair value does not exist. These investments are not listed on national exchanges or over-the-counter markets, and quoted market prices are not available. These investments include hedge funds, private equity funds, private credit funds, and real assets. Management uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The Seminary's investments in limited partnerships are valued using NAV per share and management estimates the fair values of these investments based on a review of all available information provided by fund managers and general partners. The Organization also takes into consideration audited financial information to determine overall reasonableness of the recorded value. These fair value estimates are evaluated on a regular basis by management and are susceptible to revisions as more information becomes available. Because of these factors, it is reasonably possible that the estimated fair values of these investments may change materially in the near term. The alternative investments have passed initial lock-up periods and are available for quarterly distributions with 30-90 days advanced notice.

Changes in valuation techniques—None.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

9. DISCLOSURES OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

The following table lists the Seminary's investments with a reported NAV or equivalent at July 31, 2023:

Investment Category	Strategy	Fair Value Determined Using NAV	Amount of Unfunded Commitment	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions	Redemption Restrictions in Place at Year End
Hedge funds	Multi-strategy	\$ 6,025,868	\$ -	Open/Evergreen	Quarterly w/ 60 day notice	25% gate	Y
Private equity	International private equity	1,952,050	1,000,000	10 Yrs,+1,+1	Full-term commitment	Full-term commitment	Y (est. exit 2031)
Private credit	Distressed debt	2,969,223	-	7 Yrs,+1,+1	Full-term commitment	Full-term commitment	Y (est. exit 2026)
Real assets	Natural resources	5,288,279	813,147	12 Yrs,+1,+1,+1	Full-term commitment	Full-term commitment	Y (est. exit 2029)
Real assets	Natural resources	1,525,148	1,173,545	12 Yrs,+1,+1,+1	Full-term commitment	Full-term commitment	Y (est. exit 2033)
Private equity	Venture capital	127,086	1,350,000	6 Yrs,+1,+1	Full-term commitment	Full-term commitment	Y (est. exit 2030)
Real assets	Farmland	5,060,489	-	Open/Evergreen	Annual (Sept. 30 notice)	10% withholding	Y
Real assets	Real estate	<u>1,876,022</u>	<u>224,890</u>	10 Yrs,+1,+1	Full-term commitment	Full-term commitment	Y (est. exit 2032)
		<u>\$ 24,824,165</u>	<u>\$ 4,561,582</u>				

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

9. DISCLOSURES OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

The following table lists the Seminary's investments with a reported NAV or equivalent at July 31, 2022:

Investment Category	Strategy	Fair Value Determined Using NAV	Amount of Unfunded Commitment	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions	Redemption Restrictions in Place at Year End
Hedge funds	Multi-strategy	\$ 5,540,498	\$ -	Open/Evergreen	Quarterly w/ 60 day notice	25% gate	Y
Private equity	International private equity	1,500,000	1,000,000	10 Yrs,+1,+1	Full-term commitment	Full-term commitment	Y (est. exit 2031)
Private credit	Distressed debt	3,080,803	-	7 Yrs,+1,+1	Full-term commitment	Full-term commitment	Y (est. exit 2026)
Real assets	Natural resources	4,669,662	1,084,388	12 Yrs,+1,+1,+1	Full-term commitment	Full-term commitment	Y (est. exit 2029)
Real assets	Farmland	4,363,090	-	Open/Evergreen	Annual (Sept. 30 notice)	10% withholding	Y
Real assets	Real estate	<u>1,739,918</u>	<u>388,062</u>	10 Yrs,+1,+1	Full-term commitment	Full-term commitment	Y (est. exit 2032)
		<u>\$ 20,893,971</u>	<u>\$ 2,472,450</u>				

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

10. NET ASSETS:

Net assets consist of:

	July 31,	
	2023	2022
Without donor restrictions:		
Undesignated	\$ 37,830,192	\$ 31,159,215
Board-designated	6,636,193	6,219,291
	44,466,385	37,378,506
With donor restrictions:		
Restricted by purpose or time:		
Accumulated gains	9,093,274	6,934,680
Scholarships	1,723,899	2,203,858
Faculty	165,549	149,594
Project renovations	3,654,456	3,079,997
Institutional support	2,384,921	926,373
Lectures and awards	130,683	114,415
Library	7,009	21,973
Other	1,923,938	2,150,708
	19,083,729	15,581,598
Restricted in perpetuity:		
Endowment funds	28,045,047	27,697,660
Beneficial interest in trusts held by others	6,076,441	5,471,220
	34,121,488	33,168,880
	\$ 97,671,602	\$ 86,128,984

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

11. ENDOWMENT FUNDS:

The Seminary's endowment consists of approximately 370 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by GAAP, 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 board of trustees of the Seminary has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 net assets restricted in perpetuity as (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 net assets restricted in perpetuity is classified as net assets restricted by purpose or time until those amounts are appropriated for expenditure by the Seminary in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Seminary and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Seminary
7. The investment policies of the Seminary

Endowment net asset composition by type:

	July 31,	
	2023	2022
Without donor restrictions:		
Board-designated	\$ 6,636,193	\$ 6,219,291
With donor restrictions:		
Accumulated gains	9,093,274	6,934,680
Original gift	28,045,047	27,697,660
	37,138,321	34,632,340
	\$ 43,774,514	\$ 40,851,631

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

11. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the year ended July 31, 2023:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gift	
Endowment net assets, beginning of year	\$ 6,219,291	\$ 6,934,680	\$ 27,697,660	\$ 40,851,631
Investment return:				
Dividend and interest income	32,627	-	-	32,627
Net realized/unrealized gains	659,282	3,686,587	-	4,345,869
	<u>691,909</u>	<u>3,686,587</u>	<u>-</u>	<u>4,378,496</u>
Contributions	-	-	332,387	332,387
Transfers	-	-	15,000	15,000
Appropriations	<u>(275,007)</u>	<u>(1,527,993)</u>	<u>-</u>	<u>(1,803,000)</u>
Endowment net assets, end of year	<u>\$ 6,636,193</u>	<u>\$ 9,093,274</u>	<u>\$ 28,045,047</u>	<u>\$ 43,774,514</u>

Changes in endowment net assets for the year ended July 31, 2022:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gift	
Endowment net assets, beginning of year	\$ 6,567,284	\$ 8,889,190	\$ 26,919,206	\$ 42,375,680
Investment return:				
Dividend and interest income	32,422	-	-	32,422
Net realized/unrealized losses	(99,561)	(620,364)	-	(719,925)
	<u>(67,139)</u>	<u>(620,364)</u>	<u>-</u>	<u>(687,503)</u>
Contributions	-	-	778,454	778,454
Appropriations	<u>(280,854)</u>	<u>(1,334,146)</u>	<u>-</u>	<u>(1,615,000)</u>
Endowment net assets, end of year	<u>\$ 6,219,291</u>	<u>\$ 6,934,680</u>	<u>\$ 27,697,660</u>	<u>\$ 40,851,631</u>

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

11. ENDOWMENT FUNDS, continued:

Description of amounts classified as net assets restricted in perpetuity and net assets restricted by purpose or time (endowment only):

	July 31,	
	2023	2022
Net assets restricted in perpetuity:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulations or by SPMIFA	<u>\$ 28,045,047</u>	<u>\$ 27,697,660</u>
Net assets restricted by purpose or time:		
The portion of perpetual endowment funds subject to a time restriction under SPMIFA with purpose restrictions	<u>\$ 9,093,274</u>	<u>\$ 6,934,680</u>

Funds with Deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Seminary to retain as a fund of perpetual duration. As of July 31, 2023 and 2022, deficiencies of this nature exist in 5 and 13 funds, which together have an original gift value of \$146,435 and \$5,513,220, a fair value of \$120,708 and \$5,316,668, and a deficiency of \$25,727 and \$196,552, respectively. These deficiencies resulted from unfavorable market fluctuations.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

11. ENDOWMENT FUNDS, continued:

Return Objectives and Risk Parameters:

The Seminary has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Seminary must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The overall investment objective is to preserve, over time, the principal value of the assets as measured in real, inflation adjusted terms. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately eight percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives:

To satisfy its long-term rate-of-return objectives, the Seminary relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Seminary targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Related to Spending Policy:

The Seminary has a policy of appropriating for distribution each year up to 5% of its endowment fund's rolling average fair value over the preceding three years. 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

July 31, 2023 and 2022

12. EXPENSES BY BOTH NATURE AND FUNCTION:

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Depreciation is allocated on a square-footage basis. Salaries and benefits, are allocated directly to the function where time and effort are expended. Student aid expense consists of emergency payments made to students under HEERF and are part of the scholarships and fellowships function; the Seminary has reported those expenditures as part of the student services function. Functional expenses by natural classification as of July 31, 2023:

	Program Activities			Total Program	Institutional Support		Total Expenses
	Instructional	Student Services	Auxiliary Enterprises		General and Administrative	Institutional Advancement	
Salaries and benefits	\$ 11,851,020	\$ 959,766	\$ 1,094,113	\$ 13,904,899	\$ 5,282,207	\$ 1,959,969	\$ 21,147,075
Utilities, alterations and repairs	81,668	10,289	914,286	1,006,243	1,549,164	12,359	2,567,766
Insurance	-	-	-	-	482,171	-	482,171
Employee development and travel	341,364	5,227	-	346,591	122,675	374,675	843,941
Supplies and services	1,234,565	350,443	2,545,156	4,130,164	1,647,411	1,007,891	6,785,466
Depreciation	454,113	-	1,455,551	1,909,664	259,486	-	2,169,150
Total operating activities	13,962,730	1,325,725	6,009,106	21,297,561	9,343,114	3,354,894	33,995,569
Other components of net periodic post-retirement costs	-	-	-	-	509,353	-	509,353
Total expenses	<u>\$ 13,962,730</u>	<u>\$ 1,325,725</u>	<u>\$ 6,009,106</u>	<u>\$ 21,297,561</u>	<u>\$ 9,852,467</u>	<u>\$ 3,354,894</u>	<u>\$ 34,504,922</u>

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

12. EXPENSES BY BOTH NATURE AND FUNCTION, continued:

Functional expenses by natural classification as of July 31, 2022:

	Program Activities			Total Program	Institutional Support		Total Expenses
	Instructional	Student Services	Auxiliary Enterprises		General and Administrative	Institutional Advancement	
Salaries and benefits	\$ 11,304,812	\$ 995,878	\$ 1,034,783	\$ 13,335,473	\$ 4,541,001	\$ 1,892,596	\$ 19,769,070
Utilities, alterations and repairs	44,509	10,524	978,511	1,033,544	1,231,229	12,971	2,277,744
Insurance	-	-	-	-	633,097	-	633,097
Employee development and travel	239,672	7,663	329	247,664	200,375	407,132	855,171
Supplies and services	1,358,553	346,124	2,521,254	4,225,931	1,501,723	806,137	6,533,791
Depreciation	416,925	-	1,336,354	1,753,279	305,576	-	2,058,855
Student aid	-	837,934	-	837,934	-	-	837,934
Total operating activities	13,364,471	2,198,123	5,871,231	21,433,825	8,413,001	3,118,836	32,965,662
Other components of net periodic post-retirement costs	-	-	-	-	323,622	-	323,622
Total expenses	\$ 13,364,471	\$ 2,198,123	\$ 5,871,231	\$ 21,433,825	\$ 8,736,623	\$ 3,118,836	\$ 33,289,284

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

13. OPERATING LEASES-RIGHT OF USE ASSETS AND LIABILITIES:

The Seminary leases apartments under a noncancelable operating lease, expiring in May 2030. The lease requires monthly payments of approximately \$140,000. The discount rate represents the risk-free discount rate using a period comparable with that of the individual lease term on the inception date of the lease. Total expenses incurred under these operating leases for the year ended July 31, 2023, was \$1,709,240.

	Amounts
Operating lease right-of-use assets	\$ 10,598,405
Operating lease right-of-use liabilities	\$ 10,918,440
Operating lease costs	\$ 1,709,240
Weighted-average discount rate	2.74%
Weighted-average remaining lease term	6.2

Future minimum lease payments required under the operating lease that has an initial or remaining non-cancelable lease term in excess of one year are as follows:

Years Ending July 31,	Amounts
2024	\$ 1,670,052
2025	1,689,646
2026	1,787,616
2027	1,787,616
2028	1,787,616
Thereafter	3,277,296
	11,999,842
Less imputed interest	(1,081,402)
	\$ 10,918,440

Prior to the adoption of ASUs 2016-02 and 2018-11 under Topic 842 as described in Note 2, the Seminary was applying Topic 840 in relation to operating leases. During the year ended July 31, 2022, the Seminary had operating lease expenses of \$1,709,243.

SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

14. EMPLOYEE BENEFITS:

RETIREMENT PLAN

The Seminary sponsors a defined contribution retirement plan (the Plan), which covers substantially all full-time regular employees. The Plan 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%. Contributions to the Plan are held by the Plan custodian. 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, 2023 and 2022, amounted to \$1,142,556 and \$1,107,782, respectively.

HEALTH INSURANCE

Effective January 2022, the Seminary switched from a traditional group health insurance plan to managed individual health insurance plans. The Seminary has recorded a shared responsibility payment liability of \$779,463 and \$285,542 as of July 31, 2023 and 2022, respectively. The Seminary also gives full-time employees access to certain HRA (health reimbursement arrangement) funds. As of July 31, 2023 and 2022, the Seminary has recorded an HRA liability of \$120,675 and \$126,528, respectively. The shared responsibility payment and HRA liabilities are included with accrued expenses and other liabilities on the consolidated statements of financial position.

15. RISKS AND UNCERTAINTIES:

As part of the response to the impact of COVID-19, the Seminary applied for a Paycheck Protection Program (PPP) Loan, administered by the Small Business Administration (SBA), under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law in March 2020. In April 2020 the Seminary was approved for and received the proceeds of a loan in the amount of \$3,509,900. The Seminary received full loan forgiveness from the SBA during the year ended July 31, 2023, and recognized the amount as a gain on extinguishment of debt without donor restrictions in the accompanying consolidated statements of activities.

During the year ended July 31, 2022, the Seminary was awarded grants as part of the Higher Education Emergency Relief Fund (HEERF) as created by the CARES Act. In accordance with FASB ASC 958-605, HEERF funding is recorded as a government grant and contract with donor restrictions and simultaneously released from restriction upon recognition in the accompanying consolidated statements of activities. During the year ended July 31, 2022, the Seminary recognized \$2,141,992 of HEERF revenue, and had \$-0- available to be drawn down. No HEERF amounts were received or recognized during the year ended July 31, 2023.

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

16. RELATED PARTY TRANSACTIONS:

The Seminary has no related party transactions with organizations outside the denomination. The SBC elects the Seminary's board of trustees as well as provides significant funding for operations. During the years ended July 31, 2023 and 2022, the Convention made cash donations to the Seminary in the amount of \$7,106,929 and \$7,438,243, respectively. Other transactions related to the denomination include certain benefit administration by Guidestone and beneficial interest in trusts held by other SBC state foundations.

17. DONOR CONCENTRATION:

During the year ended July 31, 2023, three donors gave 51% of the Seminary's total private gifts and grants. During the year ended July 31, 2022, two donors gave 16% of the Seminary's total private gifts and grants.

18. COMMITMENT:

During the year ended July 31, 2023, the Seminary entered into an agreement for certain software. Required minimum payments are as follows:

<u>Years Ending July 31,</u>	<u>Amounts</u>
2024	\$ 510,838
2025	540,459
2026	433,418
2027	402,697
2028	<u>422,832</u>
	<u>\$ 2,310,244</u>

19. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through December 8, 2023, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

Board of Trustees
Southeastern Baptist Theological
Seminary, Inc. and Subsidiary
Wake Forest, North Carolina

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

Capin Crouse LLP

Lawrenceville, Georgia
December 8, 2023

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Financial Responsibility Supplemental Schedule

Year Ended July 31, 2023

Primary Reserve Ratio:		Expendable Net Assets:	
1	Consolidated statement of financial position—Net assets without donor restrictions, page 3	Net assets without donor restrictions	44,466,385
2	Consolidated statement of financial position—Net assets with donor restrictions, page 3	Net assets with donor restrictions	53,205,217
3	None	Secured and Unsecured related party receivable	\$ -
4	None	Unsecured related party receivable	-
5	Consolidated statement of financial position—Property, plant, and equipment—net, page 3	Property, plant, and equipment, net (includes construction in progress)	<u>34,090,571</u>
6	Notes to financial responsibility supplemental schedule—Property, plant, and equipment, net, Line 1c	Property, plant, and equipment—pre-implementation	28,120,369
7	None	Property, plant, and equipment—post-implementation with outstanding debt for original purchase	-
8	Notes to financial responsibility supplemental schedule—Property, plant, and equipment, net, Line 3e	Property, plant, and equipment—post-implementation without outstanding debt for original purchase	4,500,071
9	Notes to financial responsibility supplemental schedule—Property, plant, and equipment, net, Line 2d	Construction in progress—post-implementation without outstanding debt for original purchase	1,470,131
10	Consolidated statement of financial position—Operating lease right-of-use assets, page 3	Lease right-of-use asset, net	<u>10,598,405</u>
11	Notes to financial responsibility supplemental schedule—Lease right-of-use assets, Line 5	Lease right-of-use asset, pre-implementation	10,598,405
12	None	Lease right-of-use asset, post-implementation	-
13	None	Intangible assets	-
14	Consolidated statement of financial position—Post retirement benefit obligation, page 3	Post-employment and pension liabilities	11,157,338
15	None	Long-term debt—for long term purposes	<u>-</u>
16	None	Long-term debt—for long term purposes pre-implementation	-
17	None	Long-term debt—for long term purposes post-implementation	-
18	None	Line of Credit for Construction in progress	-
19	Consolidated statement of financial position—Operating lease right-of-use liabilities, page 3	Lease right-of-use liability	<u>10,918,440</u>
20	Notes to financial responsibility supplemental schedule—Lease right-of-use liabilities, Line 6	Pre-implementation right-of-use liability	10,918,440
21	None	Post-implementation right-of-use liability	-

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Financial Responsibility Supplemental Schedule

Year Ended July 31, 2023

22	None	Annuities, term endowments and life income with donor restrictions	-
23	None	Annuities with donor restrictions	-
24	None	Term endowments with donor restrictions	-
25	None	Life income funds with donor restrictions	-
26	Consolidated statement of financial position—Net assets with donor restrictions, restricted in perpetuity, page 3	Net assets with donor restrictions: restricted in perpetuity	34,121,488
27	Consolidated statement of activities—Without donor restrictions, lines 28, 30, and 32 below, page 4	Total Expenses and Losses:	34,506,672
28	Consolidated statement of activities—Total operating expenses without donor restrictions, page 4	Total expenses without donor restrictions—taken directly from consolidated statement of activities	33,995,569
29	None	Net investment losses	-
30	Consolidated statement of cash flows—Loss on disposal of property, plant, and equipment, page 5 (also included within other income on the consolidated statement of activities, without donor restrictions, page 4)	Loss on disposal of property, plant, and equipment	1,750
31	None, pension-related changes other than net periodic costs properly included at line 49 below	Pension-related changes other than net periodic costs	-
32	Consolidated statement of activities—Other components of net periodic post-retirement costs, without donor restrictions, page 4	Other components of net periodic pension cost	509,353
	Equity Ratio:		
		Modified Net Assets:	
33	Consolidated statement of financial position—Net assets without donor restrictions, page 3	Net assets without donor restrictions	44,466,385
34	Consolidated statement of financial position—Total net assets with donor restriction, page 3	Net assets with donor restrictions	53,205,217
35	None	Intangible assets	-
36	None	Intangible assets	-
37	None	Secured and Unsecured related party receivables	\$ -
38	None	Unsecured related party receivables	-
		Modified Assets:	
39	Consolidated statement of financial position—Total assets, page 3	Total assets	123,771,629
40	Notes to financial responsibility supplemental schedule—Lease right-of-use assets, Line 5	Lease right-of-use asset pre-implementation	10,598,405
41	Notes to financial responsibility supplemental schedule—Lease right-of-use liabilities, Line 6	Pre-implementation right-of-use liability	10,918,440
42	None	Intangible assets	-
43	None	Secured and Unsecured related party receivables	\$ -
44	None	Unsecured related party receivables	-

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Financial Responsibility Supplemental Schedule

Year Ended July 31, 2023

Net Income Ratio:		
45	Consolidated statement of activities—Change in net assets without donor restrictions, page 4	
	Change in Net Assets Without Donor Restrictions	7,087,879
46	Consolidated statement of activities—Without donor restrictions, lines 47, 48, 49 and 50 below, page 4	
	Total Revenues and Gains	41,594,551
47	Consolidated statement of activities—Operating revenues and other support (including net assets released from restriction) without donor restriction, page 4, properly excludes investment return designated for operating activities (\$275,007) and is reported net at line 48 below.	
	Total operating revenues and support, without donor restrictions-excluding operating investment income	39,217,916
48	Consolidated statement of activities—Total net operating investment income (\$275,007) and total investment return net of amount designated for current operations (\$958,739), without donor restrictions, page 4	
	Net investment income without donor restrictions	1,233,746
49	Consolidated statement of activities—Post-retirement related changes other than net periodic post-retirement costs, without donor restrictions, page 4	
	Pension-related changes other than net periodic costs	1,141,139
50	Consolidated statement of cash flows—Loss on disposal of property, plant, and equipment, page 5 (also included within other income on the consolidated statement of activities, without donor restrictions, page 4). Since a loss, added back and properly reported at line 30 above.	
	Loss on disposal of property, plant, and equipment	1,750

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Financial Responsibility Supplemental Schedule

Year Ended July 31, 2023

The Department of Education issued regulations, effective July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV. These note disclosures are not required by accounting principles generally accepted in the United States of America but are intended for use by the Department of Education and to ensure compliance with Federal Title IV regulations.

Property, Plant, and Equipment, net

1	Pre-implementation property, plant, and equipment, net (PP&E, net)		
	a. Beginning pre-implementation property, plant, and equipment, net as of July 31, 2022	\$	29,621,705
	b. Less subsequent (fiscal year end July 31, 2023) depreciation and disposals		(1,501,336)
	c. Ending pre-implementation property, plant, and equipment, net as of July 31, 2023		<u>28,120,369</u>
2	Post-implementation construction in progress without debt:		
	a. Beginning post-implementation construction in progress as of July 31, 2022		697,425
	b. Construction in progress placed into service, subsequent to July 31, 2022		(141,999)
	c. Construction in progress acquired subsequent to July 31, 2022		<u>914,705</u>
	d. Ending post-implementation construction in progress without debt as of July 31, 2023		<u>1,470,131</u>
3	Post-implementation property, plant, and equipment, net, acquired without debt:		
	a. Beginning post-implementation property, plant, and equipment, net without outstanding debt as of July 31, 2022		4,238,039
	b. Long-lived assets acquired without use of debt subsequent to July 31, 2022		789,597
	c. Long-lived assets transferred from CIP subsequent to July 31, 2022		141,999
	d. Less subsequent (fiscal year end July 31, 2022) depreciation and disposals		<u>(669,564)</u>
	e. Ending post-implementation property, plant, and equipment, net without outstanding debt as of July 31, 2023		<u>4,500,071</u>
4	Total Property, Plant, and Equipment, net—July 31, 2023	\$	<u><u>34,090,571</u></u>

**SOUTHEASTERN BAPTIST THEOLOGICAL SEMINARY, INC.
AND SUBSIDIARY**

Notes to Financial Responsibility Supplemental Schedule

Year Ended July 31, 2023

Lease Right-Of-Use Assets and Liabilities

FASB ASU 2016-02 Leases was implemented during the year ended July 31, 2023.

5	Lease right-of-use assets–Pre-implementation: Right of use assets as of balance sheet date July 31, 2023	* <u>\$ 10,598,405</u>
6	Lease right-of-use liability–Pre-implementation: Lease liabilities as of balance sheet dated July 31, 2023	* <u>\$ 10,918,440</u>
7	Lease right-of-use assets–Post-implementation: Right of use assets as of balance sheet date July 31, 2023	* <u>\$ -</u>
8	Lease right-of-use liability–Post-implementation: Lease liabilities as of balance sheet date July 31, 2023	* <u>\$ -</u>

* Application of the FASB ASU 2016-02 *Leases* standard to pre-existing leases will often result in right-of-use assets that do not equal right-of-use liabilities, e.g., an existing rent liability reclassification (created when straight line expense exceeds cash rent payments) will lower the related ROU asset.