

**Southeastern Baptist
Theological Seminary, Inc.
and Subsidiary**

Financial Report
July 31, 2010

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

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Independent Auditor's Report

To the Board of Trustees
Southeastern Baptist Theological Seminary, Inc.
Wake Forest, North Carolina

We have audited the accompanying consolidated statements of financial position of Southeastern Baptist Theological Seminary, Inc. and subsidiary as of July 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Seminary's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated 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, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Raleigh, North Carolina
January 20, 2011

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Consolidated Statements of Financial Position
July 31, 2010 and 2009**

	2010	2009
Assets		
Cash	\$ 6,454,489	\$ 6,932,038
Accounts and notes receivable, less allowance for doubtful accounts 2010 \$107,538; 2009 \$104,986	355,358	235,913
Accrued investment income receivable	-	46,348
Assets held in trust	-	350,000
Prepaid expenses and other assets	360,256	734,321
Inventories	14,259	13,385
Investments (Notes 2 and 5)	20,898,936	19,188,054
Unamortized debt issuance costs	250,784	270,430
Property and equipment, net (Notes 3, 9, and 15)	41,635,657	42,818,470
Beneficial interests in perpetual trusts (Notes 4 and 5)	2,416,558	2,321,112
Total assets	\$ 72,386,297	\$ 72,910,071
Liabilities and Net Assets		
Accounts payable and other accrued expenses	\$ 867,999	\$ 795,164
Refundable advance	-	350,000
Student deposits	587,354	671,142
Deferred student tuition	537,849	497,477
Line of credit (Note 8)	-	501,387
Postretirement benefit liability (Note 7)	6,683,205	6,325,431
Due to donor of remainder trusts and gift annuities	51,642	49,570
Bonds payable (Note 9)	7,550,000	7,920,000
Capital lease obligation (Note 15)	23,156	49,257
Total liabilities	16,301,205	17,159,428
Commitments (Notes 6, 8, 9 and 15)		
Net assets:		
Unrestricted (Notes 10 and 14)	30,756,588	30,295,014
Temporarily restricted (Notes 11, 13 and 14)	9,595,377	10,618,018
Permanently restricted (Notes 12 and 14)	15,733,127	14,837,611
Total net assets	56,085,092	55,750,643
Total liabilities and net assets	\$ 72,386,297	\$ 72,910,071

See Notes to Consolidated Financial Statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Activities Years Ended July 31, 2010 and 2009

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Gross tuition and fees	\$ 7,109,516	\$ -	\$ -	\$ 7,109,516
Less institutional grants	634,847	-	-	634,847
	6,474,669	-	-	6,474,669
Sales and services of auxiliary enterprises	3,739,786	-	-	3,739,786
SBC Cooperative Program	7,928,725	-	137,550	8,066,275
Private gifts and bequests	1,108,372	775,321	580,270	2,463,963
Investment return designated for current operations (Note 2)	490,045	387,423	-	877,468
Total return (loss) on beneficial interest in perpetual trusts	1,010	342,559	(28,161)	315,408
Other income	66,510	-	-	66,510
Total revenues, gains and other support	19,809,117	1,505,303	689,659	22,004,079
Net assets released from program restrictions (Note 13)	1,225,587	(1,225,587)	-	-
Expenses:				
Educational and general:				
Instructional	9,169,175	-	-	9,169,175
Administrative and general	5,720,262	-	-	5,720,262
Operation and maintenance of plant	3,591,459	-	-	3,591,459
Total educational and general	18,480,896	-	-	18,480,896
Auxiliary enterprises	3,824,357	-	-	3,824,357
Total expenses	22,305,253	-	-	22,305,253
Change in net assets from operations	(1,270,549)	279,716	689,659	(301,174)
Other changes:				
Investment return in excess of (less than) amounts designated for current operations (Note 2)	1,409,081	(861,308)	100,033	647,806
Reclassifications due to change in donor restrictions	351,781	(457,605)	105,824	-
Reclassifications based on change in law (Note 14)	-	-	-	-
Reclassification of underwater endowments (Note 14)	(16,556)	16,556	-	-
Changes in postretirement benefit liability other than net periodic postretirement benefit costs (Note 7)	(12,183)	-	-	(12,183)
Change in net assets	461,574	(1,022,641)	895,516	334,449
Net assets:				
Beginning	30,295,014	10,618,018	14,837,611	55,750,643
Ending	\$ 30,756,588	\$ 9,595,377	\$ 15,733,127	\$ 56,085,092

See Notes to Consolidated Financial Statements.

2009

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 7,027,199	\$ -	\$ -	\$ 7,027,199
778,647	-	-	778,647
6,248,552	-	-	6,248,552
3,768,435	-	-	3,768,435
8,411,175	-	38,541	8,449,716
615,298	897,123	375,354	1,887,775
418,479	380,153	-	798,632
(24,744)	(130,726)	(374,796)	(530,266)
75,708	-	-	75,708
19,512,903	1,146,550	39,099	20,698,552
6,710,699	(6,710,699)	-	-
9,100,895	-	-	9,100,895
5,576,513	-	-	5,576,513
3,394,180	-	-	3,394,180
18,071,588	-	-	18,071,588
3,934,839	-	-	3,934,839
22,006,427	-	-	22,006,427
4,217,175	(5,564,149)	39,099	(1,307,875)
(1,946,056)	(966,517)	(158,889)	(3,071,462)
-	-	-	-
(1,514,256)	1,514,256	-	-
(303,149)	303,149	-	-
-	-	-	-
(1,117,157)	-	-	(1,117,157)
(663,443)	(4,713,261)	(119,790)	(5,496,494)
30,958,457	15,331,279	14,957,401	61,247,137
\$ 30,295,014	\$ 10,618,018	\$ 14,837,611	\$ 55,750,643

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended July 31, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	\$ 334,449	\$ (5,496,494)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	1,867,023	1,789,224
Change in value of beneficial interest in perpetual trusts	(95,446)	663,979
Bad debt expense	29,134	35,524
Realized and unrealized (gain) loss on investments	(1,100,989)	2,667,753
Gain on sale or disposal of property and equipment	(10,113)	-
(Increase) decrease in:		
Accounts and notes receivable	(148,579)	252,381
Accrued investment income receivable	46,348	(46,348)
Prepaid expenses and other assets	374,065	(552,630)
Inventories	(874)	19,025
Increase (decrease) in:		
Accounts payable and other accrued expenses	74,907	9,720
Student deposits	(83,788)	(44,095)
Postretirement benefit liability	357,774	1,355,012
Deferred student tuition	40,372	(424,467)
Interest and dividends restricted for reinvestment	(50,738)	(44,320)
Contributions restricted for investment in endowment	(580,270)	(375,354)
Contributions restricted for property and equipment	(294,156)	(377,618)
Net cash provided by (used in) operating activities	759,119	(568,708)
Cash Flows From Investing Activities		
Proceeds from sale of investments	12,049,199	33,044,977
Purchase of investments	(12,659,092)	(36,018,439)
Purchases of property and equipment	(654,451)	(1,607,957)
Net cash used in investing activities	(1,264,344)	(4,581,419)

(Continued)

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)
Years Ended July 31, 2010 and 2009

	2010	2009
Cash Flows From Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	\$ 580,270	\$ 375,354
Property and equipment	294,156	377,618
Other financing activities:		
Payments on bonds payable	(370,000)	(355,000)
Payments on note payable	-	(1,207,314)
Borrowings on line of credit	-	1,265,000
Payments on line of credit	(501,387)	(763,613)
Payments on capital lease obligation	(26,101)	(24,379)
Interest and dividends restricted for reinvestment	50,738	44,320
Net cash provided by (used in) financing activities	27,676	(288,014)
Net decrease in cash	(477,549)	(5,438,141)
Cash:		
Beginning	6,932,038	12,370,179
Ending	<u>\$ 6,454,489</u>	<u>\$ 6,932,038</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	<u>\$ 30,562</u>	<u>\$ 201,742</u>

See Notes to Consolidated Financial Statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Southeastern Baptist Theological Seminary, Inc. (the "Seminary") prepares men and women by means of academic studies and practical preparation for leadership roles in Baptist churches and in other Christian ministries. The Seminary is an institution of higher learning established and supported through the Cooperative Program by the Southern Baptist Convention. It is governed by the Board of Trustees who are elected by the Southern Baptist Convention. Outlined below are the accounting and reporting policies considered significant by the Seminary.

A summary of the Seminary's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of Southeastern Baptist Theological Seminary, Inc. and its wholly-owned subsidiary, Southeastern Baptist Theological Seminary Foundation, Inc. (the "Foundation"). At July 31, 2009, the Foundation held assets in trust on behalf of a donor through a revocable trust. This is reflected as an asset and corresponding liability on the statement of financial position. These assets were transferred during the year ended July 31, 2010.

Basis of presentation: In preparing its financial statements, the Seminary's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Seminary and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Seminary and/or by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Seminary. Generally, the donors of these assets permit the Seminary to use all or part of the earnings on the related investments for general or specific purposes.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains and other support and expenses during the reporting period. Actual results could differ from those estimates.

Cash: The Seminary maintains deposits with Branch Banking and Trust Company in amounts that are at times in excess of federal insurance limits, including the entire cash balance at July 31, 2010 and 2009. Cash includes temporarily restricted amounts of \$4,909,623 and \$5,194,454 at July 31, 2010 and 2009, 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 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 receivables and notes receivables previously written off are recorded when received.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

A student accounts receivable is considered past due if any portion of the receivable balance is outstanding for more than 120 days. Interest is not charged on student accounts receivable. A note receivable is considered past due if the note balance and unpaid interest is outstanding past the note maturity date. After the note receivable becomes past due, it is on nonaccrual status and accrual of interest is suspended.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based upon measurements described in Note 5 determined at the financial statement date. Donated investments are initially recorded at fair value at the date of gift. Unless specifically directed by the donor, endowment contributions received by the Seminary are pooled and investments are then purchased with the funds available.

Debt issuance costs: Costs incurred in issuing the Series 2005 Educational Facilities Revenue Bonds issued by the Colorado Educational and Cultural Facilities Authority and loaned to the Seminary are deferred and amortized to income over the term of the bonds by the interest method.

Long-lived assets: Cash or other assets whose purpose is to acquire long-lived assets are recorded as unrestricted if the Seminary has internally designated such assets or restricted if such assets represent gifts received with donor imposed restrictions. Once acquired and placed into service, all long-lived assets, primarily property and equipment, are considered unrestricted net assets.

Property and equipment: Property and equipment is stated at cost less accumulated depreciation. Property and equipment is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. 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

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

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

Fund-raising expenses: Fund-raising expenses totaled approximately \$145,000 and \$184,000 for the years ended July 31, 2010 and 2009, 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.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

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 (formerly referenced as FASB Statement No. 158) to account for the costs of those benefits. Under that Statement, the Seminary recognizes the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position.

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).

The FASB issued guidance on accounting for uncertainty in income taxes. The Seminary adopted this new guidance during the year ended July 31, 2010. 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 this guidance. With few exceptions, the Seminary is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

Subsequent events: The Seminary has evaluated its subsequent events (events occurring after July 31, 2010) through January 20, 2011, which represents the date the financial statements were available to be issued.

Recent accounting pronouncements: In June 2009, the FASB issued *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (the "Codification") to indicate changes to the Generally Accepted Accounting Principles ("GAAP") hierarchy. Since the issuance of the Codification, the FASB is not issuing new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it is issuing Accounting Standards Updates, which are not authoritative in their own right but serve to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the changes to the Codification. On the effective date of the Codification, the FASB Accounting Standards Codification became the single source of authoritative U.S. accounting and reporting standards applied by nongovernmental entities, except for rules and interpretive releases of the United States Securities and Exchange Commission ("SEC") under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification became non-authoritative. The Codification is effective for financial statements issued for periods ended after September 15, 2009. The Seminary adopted the Codification in its 2010 financial statements.

In September 2009, the FASB released accounting guidance on estimating the fair value of an entity's investment when the investment does not have a readily determinable fair value. It permits the use of the investment's net asset value as a practical expedient to determine fair value. This guidance also required additional disclosure of the attributes of these investments such as: (i) the nature of any restrictions on the reporting entity's ability to redeem its investment; (ii) unfunded commitments; and (iii) investment strategies of the investees. This guidance is effective for periods ending after December 15, 2009. The adoption did not have a material impact on the Seminary's financial condition or results of operations and all applicable disclosures are included in these financial statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

In January 2010, the FASB released accounting guidance that requires new fair value measurement classification disclosures and clarifies existing disclosures. The guidance requires: (i) separate disclosures of significant transfers between Level 1 and Level 2 and reasons for transfers, (ii) disclosure, on a gross basis, of purchases, sales, issuances and net settlements within Level 3 measurements, (iii) disclosures by class of assets and liabilities, and (iv) a description of the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disaggregation of the Level 3 activity, which is effective for interim and annual periods beginning after December 15, 2010. The Seminary does not expect the adoption of this guidance to have a material impact on its financial statements.

Reclassifications: Certain amounts on the financial statements for 2009 have been reclassified, with no effect on net assets or the change in net assets, to be consistent with the classifications adopted for 2010.

Note 2. Investments

Investments at July 31, 2010 and 2009 consist of the following:

	2010		
	Cost	Net Unrealized Gains	Fair Value
Short-term cash investments	\$ 1,390,544	\$ -	\$ 1,390,544
Privately held common stock	1,406,886	-	1,406,886
Equities funds	9,638,615	612,847	10,251,462
Pooled investments, Southern Baptist Foundation	88,627	3,572	92,199
Fixed income securities	3,613,495	767,379	4,380,874
Mortgage notes receivable	3,250,647	89,324	3,339,971
Other	37,000	-	37,000
	<u>\$ 19,425,814</u>	<u>\$ 1,473,122</u>	<u>\$ 20,898,936</u>
	2009		
	Cost	Net Unrealized Gains	Fair Value
Short-term cash investments	\$ 2,376,281	\$ -	\$ 2,376,281
Privately held common stock	1,406,886	-	1,406,886
Equities funds	10,266,307	500,862	10,767,169
Pooled investments, Southern Baptist Foundation	91,827	189	92,016
Fixed income securities	3,996,289	147,180	4,143,469
Mortgage notes receivable	306,606	11,130	317,736
Other	84,497	-	84,497
	<u>\$ 18,528,693</u>	<u>\$ 659,361</u>	<u>\$ 19,188,054</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

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 impact the Seminary's investment balance reported in the consolidated statement of financial position.

The following schedule summarizes the investment return and its classification in the statements of activities:

	2010			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Dividends and interest, net of expenses	\$ 238,762	\$ 134,785	\$ 50,738	\$ 424,285
Net change in unrealized appreciation	220,943	418,033	174,785	813,761
Net realized gains (losses)	1,439,421	(1,026,703)	(125,490)	287,228
Total return (loss) on investments	1,899,126	(473,885)	100,033	1,525,274
Investment return designated for current operations	490,045	387,423	-	877,468
Investment return in excess of (less than) amounts designated for current operations	\$ 1,409,081	\$ (861,308)	\$ 100,033	\$ 647,806

	2009			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Dividends and interest, net of expenses	\$ 235,937	\$ 114,666	\$ 44,320	\$ 394,923
Net change in unrealized appreciation	425,440	203,346	131,889	760,675
Net realized losses	(2,188,954)	(904,376)	(335,098)	(3,428,428)
Total return (loss) on investments	(1,527,577)	(586,364)	(158,889)	(2,272,830)
Investment return designated for current operations	418,479	380,153	-	798,632
Investment return in excess of (less than) amounts designated for current operations	\$ (1,946,056)	\$ (966,517)	\$ (158,889)	\$ (3,071,462)

Investment expenses for the years ended July 31, 2010 and 2009 were \$155,109 and \$173,206, respectively.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Property and Equipment

Property and equipment at July 31, 2010 and 2009 consisted of the following:

	2010	2009
Land	\$ 559,506	\$ 559,506
Land improvements	2,100,690	2,080,579
Buildings	49,946,843	49,333,192
Equipment	7,562,256	7,085,383
Construction in progress	152,413	618,130
	60,321,708	59,676,790
Less accumulated depreciation	18,686,051	16,858,320
	<u>\$ 41,635,657</u>	<u>\$ 42,818,470</u>

Note 4. Beneficial Interests in Perpetual Trusts

The North Carolina Baptist Foundation is administering certain deferred trust assets held for the benefit of Southeastern Baptist Theological Seminary, Inc. These trust assets are restricted in order 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 Perpetual Trusts.

Note 5. Fair Value Measurements

ASC 820 (formerly referenced as SFAS 157) established a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The fair value hierarchy is as follows:

- Level 1 Inputs – unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs – 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 Inputs – unobservable inputs for determining the fair values of assets or liabilities that would reflect an entity's own determination about the assumptions that market participants would use in pricing the assets or liabilities.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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

Investments:

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

Common stocks and equities funds: Equity securities and equity 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 holds shares of stock in a privately-held company which is classified within Level 3 of the valuation hierarchy.

Pooled investments: Pooled investments consist of investment funds that have been pooled together with the investments of other religious organizations which are managed by the Southern Baptist Foundation. Ownership interests in pooled investments are typically valued using the net asset valuations provided by the Southern Baptist Foundation and information provided by professional appraisers. Investments in pooled investments are classified within Level 2 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.

Mortgage notes receivable: Investments in mortgage notes receivable securities 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 notes receivable are classified within Level 2 of the valuation hierarchy.

Other: Other investments consist of land which was donated and has been recognized at estimated fair value as contribution revenue in the year of donation. Land is held at the lower of cost (or estimated fair value as of the date of donation) or net realizable value and is not depreciated. Since there are observable inputs for similar land sales, this land is classified within Level 2 of the valuation hierarchy.

Beneficial interests in perpetual trusts: The Seminary has been named as a beneficiary in perpetual trusts in which the Seminary is not the trustee. Amounts reported approximate fair value as noted below:

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

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

Equities funds: Equity securities and equity 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.

Fixed income securities: Investments in fixed income funds include corporate bond funds, government agency obligation bond funds, and blended fixed income mutual funds 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 1 of the valuation hierarchy.

Mortgage notes receivable: Investments in mortgage notes receivable securities 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 notes receivable are classified within Level 2 of the valuation hierarchy.

Pooled investments: Pooled investments consist of trust funds that have been pooled together with the funds of other religious organizations which are managed by the North Carolina Baptist Foundation. Ownership interests in pooled investments are typically valued using the net asset valuations provided by the North Carolina Baptist Foundation and information provided by professional appraisers. Pooled investments are classified within Level 2 of the valuation hierarchy.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

The following tables summarize financial assets and financial liabilities measured at fair value by classification within the fair value hierarchy as of July 31, 2010 and 2009:

	2010		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total		
Assets			
Investments:			
Short-term cash investments	\$ 209,107	\$ 1,181,437	\$ -
Privately held common stock	-	-	1,406,886
Equities funds:			
US Large Cap	1,467,799	-	-
US Mid Cap	2,205,557	-	-
US Small Cap	2,578,005	-	-
Emerging Markets	784,110	-	-
Developed Markets	3,215,991	-	-
Pooled investments,			
Southern Baptist Foundation	-	92,199	-
Fixed income securities:			
US Government and agencies	-	1,134,399	-
Corporate	-	3,246,475	-
Mortgage notes receivable	-	3,339,971	-
Real estate	-	37,000	-
	10,460,569	9,031,481	1,406,886
Beneficial interest in perpetual trusts:			
Short-term cash investments	16,345	-	-
Equities funds:			
US Large Cap	404,380	-	-
US Mid Cap	94,599	-	-
US Small Cap	88,720	-	-
Emerging Markets	74,864	-	-
Developed Markets	158,418	-	-
Other	14,611	-	-
Fixed income securities:			
US Government and agencies	-	22,812	-
Corporate	-	260,921	-
Other	-	178	-
Mortgage notes receivable	-	86	-
Pooled investments,			
North Carolina Baptist Foundation	-	1,280,624	-
	851,937	1,564,621	-
Total financial assets	\$ 11,312,506	\$ 10,596,102	\$ 1,406,886

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

	2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)			Total
	Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	
Assets				
Investments:				
Short-term cash investments	\$ -	\$ 2,376,281	\$ -	\$ 2,376,281
Privately held common stock	-	-	1,406,886	1,406,886
Equities funds:				
US Large Cap	1,466,358	-	-	1,466,358
US Mid Cap	2,278,712	-	-	2,278,712
US Small Cap	2,103,377	-	-	2,103,377
Emerging Markets	975,609	-	-	975,609
Developed Markets	3,943,113	-	-	3,943,113
Pooled investments,				
Southern Baptist Foundation	-	92,016	-	92,016
Fixed income securities:				
US Government and agencies	-	1,526,206	-	1,526,206
Corporate	-	2,617,263	-	2,617,263
Mortgage notes receivable	-	317,736	-	317,736
Real estate	-	84,497	-	84,497
	10,767,169	7,013,999	1,406,886	19,188,054
Beneficial interest in perpetual trusts:				
Short-term cash investments	18,169	-	-	18,169
Equities funds:				
US Large Cap	366,490	-	-	366,490
US Mid Cap	61,193	-	-	61,193
US Small Cap	3,268	-	-	3,268
Emerging Markets	14,003	-	-	14,003
Developed Markets	85,064	-	-	85,064
Other	161,232	-	-	161,232
Fixed income securities:				
US Government and agencies	-	14,210	-	14,210
Corporate	-	334,568	-	334,568
Other	-	178	-	178
Mortgage notes receivable	-	86	-	86
Pooled investments,				
North Carolina Baptist Foundation	-	1,262,651	-	1,262,651
	709,419	1,611,693	-	2,321,112
Total financial assets	\$ 11,476,588	\$ 8,625,692	\$ 1,406,886	\$ 21,509,166

There was no change in the beginning and ending balance of financial assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended July 31, 2010 or 2009.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6. Retirement Plan

Permanent employees of Southeastern Baptist Theological Seminary, Inc. who normally work at least half time are participants in a retirement annuity plan sponsored by Guidestone Financial Resources of the Southern Baptist Convention. The Seminary contributes 10% of each eligible participant's compensation to the plan and will match an employee's contribution up to 5%. Retirement fund investments are self-directed by the plan participants and the Seminary has no further funding obligation once the contribution has been made. The Seminary's contribution to the plan for 2010 and 2009 was \$768,236 and \$795,657, respectively.

Note 7. Postretirement Benefits

The Seminary sponsors a postretirement benefit plan for all employees that meet the eligibility requirements. The plan provides health benefits and is noncontributory and unfunded. The measurement dates used to determine the postretirement benefit measurements is the same as the Seminary's fiscal year-end.

Net periodic postretirement benefit costs recognized as expenses included the following components for the years ended July 31, 2010 and 2009:

	2010	2009
Service cost-benefits attributable to service during the year	\$ 269,627	\$ 172,930
Interest on accumulated postretirement benefit obligation	382,733	348,684
Amortization of unrecognized transition obligation	129,060	129,060
	<u>\$ 781,420</u>	<u>\$ 650,674</u>

The accumulated postretirement benefit obligation recognized on the accompanying statement of financial position includes the following components and activity as of and for the year ended July 31, 2010 and 2009:

	2010	2009
Benefit obligation at beginning of year	\$ 6,325,431	\$ 4,970,419
Service cost-benefits attributable to service during the year	269,627	172,930
Interest on accumulated postretirement benefit obligation	382,733	348,684
Benefits paid by the Seminary	(306,769)	(283,759)
Actuarial (gain) loss	(407,224)	314,545
Effect of change in discount rate assumption	575,305	802,612
Effect of change in mortality, withdrawal, and trend assumptions	(155,898)	-
Benefit obligation at end of year	<u>\$ 6,683,205</u>	<u>\$ 6,325,431</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Postretirement Benefits (Continued)

Accumulated postretirement benefit obligation included the following components that have not yet been recognized as components of net periodic postretirement benefit costs at July 31, 2010 and 2009 but which have been reflected as a reduction to unrestricted net assets, apart from expenses, on the accompanying consolidated statement of activities for the years ended July 31, 2010 and 2009:

	2010	2009
Net transition obligation	\$ 629,740	\$ 758,800
Net experience losses	361,631	349,448
	<u>\$ 991,371</u>	<u>\$ 1,108,248</u>

The following amounts included in accumulated postretirement benefit obligation at July 31, 2010 and 2009 that have not yet been recognized as components of net periodic postretirement benefit costs but are expected to be recognized as components of periodic postretirement benefit costs in 2011 and 2010:

	2011	2010
Amortization of unrecognized transition obligation	\$ 129,060	\$ 129,060

For measurement purposes, an 8.75% annual rate of increase in per capita health care costs of covered benefits was assumed for 2010 and 2009, with such annual rate of increase gradually declining to 5.0% by 2015. If assumed health care cost trend rates were increased by 1 percentage point in each year, the accumulated postretirement benefit obligation at July 31, 2010 and 2009 would be increased by approximately \$145,076 (2.43%) and \$126,806 (2.25%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2010 and 2009 would be increased by approximately \$13,118 (2.23%) and \$11,660 (2.53%), respectively.

If assumed health care cost trend rates were decreased by 1 percentage point in each year, the accumulated postretirement benefit obligation at July 31, 2010 and 2009 would be decreased by approximately \$130,005 (2.18%) and \$112,967 (2.00%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2010 and 2009 would be decreased by approximately \$11,211 (1.91%) and \$10,176 (2.21%), respectively.

The weighted average discount rate used in estimating the benefit obligation and net periodic benefit cost at July 31, 2010 and 2009 was 5.20% and 5.95%, 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:

Year Ending July 31,	Amount
2011	\$ 359,385
2012	372,996
2013	368,558
2014	400,873
2015	399,753
2016 - 2020	2,172,468
	<u>\$ 4,074,033</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 8. Line of Credit

At July 31, 2010 and 2009, the Seminary has an unsecured line of credit with a bank with available borrowings up to \$1,500,000. Borrowings under the line of credit were at LIBOR plus 1.85%, not to decrease below a minimum rate of 3%, and require monthly interest payments. Total outstanding borrowings under the line of credit agreement were \$0 and \$501,387 at July 31, 2010 and 2009, respectively. Total interest expense for the years ended July 31, 2010 and 2009 was \$28,091 and \$189,814, of which \$4,512 and \$6,714 related to the line of credit, respectively. The outstanding balance and all accrued but unpaid interest will be due on February 12, 2011. The loan agreement associated with the line of credit contains various covenants, including the requirement to maintain minimum tangible net worth of \$40,000,000, total unrestricted net assets of \$25,000,000, and minimum liquidity of \$3,000,000.

Note 9. Bonds Payable

During 2005, the Colorado Educational and Cultural Facilities Authority ("the Authority"), pursuant to a trust agreement dated March 1, 2005 with The Bank of New York Trust Company, N.A. ("the Trustee"), issued revenue bonds in the amount of \$8,955,000. The Authority loaned the proceeds of the bonds through ASCI Capital Corporation ("ASCI") to the Seminary pursuant to a loan agreement between ASCI and the Seminary in which the Seminary is obligated to make payments to the Trustee in amounts sufficient to pay the principal and interest on the bonds. The bonds have variable rates with an average interest rate of 0.26% at July 31, 2010 (reset weekly) and mature on March 1, 2025, subject to various optional and potential mandatory redemptions prior to that date. A portion of the bond proceeds were used to repay previously existing debt of the Seminary with the balance of the remaining proceeds being used for the cost of the acquisition, construction and equipping a student housing facility and a facilities management building. The amounts outstanding at July 31, 2010 and 2009 were \$7,550,000 and \$7,920,000 respectively. Total interest expense for the years ended July 31, 2010 and 2009 was \$28,091 and \$189,814 of which \$20,423 and \$103,307 related to the bonds payable, respectively.

These bonds are secured by an irrevocable, direct-pay letter of credit issued by Branch Banking and Trust Company ("BB&T"), which has an initial term expiring on March 10, 2013, pursuant to a loan and letter of credit reimbursement agreement. Any drawings on the letter of credit by the Trustee will be considered loans from BB&T to the Seminary so long as there is no event of default under the reimbursement agreement. The agreement contains various restrictive covenants, the most specific of which requires the Seminary to maintain a long-term debt service coverage ratio of at least 1.20 to 1.00. The agreement also requires audited financial statements to be furnished to the bank within 120 days after the end of each fiscal year. The Seminary has given a deed of trust to real property and assigned rents and leases of the property as collateral for BB&T's letter of credit.

The Seminary was not in compliance with the 120 day reporting requirement at July 31, 2010. By letter dated December 6, 2010, the bank waived the Seminary's failure to comply with this requirement.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 9. Bonds Payable (Continued)

Principal payments on bonds payable over the next five years and thereafter, assuming continuous renewal of the letter of credit, are as follows:

Year Ending July 31,	Amount
2011	\$ 380,000
2012	395,000
2013	410,000
2014	425,000
2015	445,000
Thereafter	5,495,000
	<u>\$ 7,550,000</u>

Note 10. Unrestricted Net Assets

Unrestricted net assets include board-designated amounts for endowment purposes at July 31, 2010 and 2009 of \$6,590,874 and \$4,841,391, respectively. These amounts are impacted by investment return and appropriations subsequent to designation.

Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets as of July 31, 2010 and 2009 are available for the following purposes:

	2010	2009
Purposes restrictions:		
Scholarships	\$ 4,196,395	\$ 4,511,510
Project renovations	2,427,593	3,124,223
Faculty	1,376,812	956,277
Remainder trusts	550,993	199,079
Loans to students	246,199	709,850
Lectures and awards	242,358	245,432
Library	208,920	203,368
Other	346,107	668,279
	<u>\$ 9,595,377</u>	<u>\$ 10,618,018</u>

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 12. Permanently Restricted Net Assets

Permanently restricted net assets at July 31, 2010 and 2009 are restricted to:

	2010	2009
Investment in perpetuity, the income from which is expendable to support:		
Faculty	\$ 5,937,056	\$ 5,438,574
Scholarships	4,879,500	4,600,861
Institutional support	4,131,642	4,110,515
Lectures and awards	362,957	318,359
Library	274,471	246,880
Plant maintenance	147,501	122,422
	\$ 15,733,127	\$ 14,837,611

Note 13. Net Assets Released From Donor Restrictions

Net assets during the years ended July 31, 2010 and 2009 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

	2010	2009
Purpose restrictions accomplished:		
Scholarships	\$ 577,176	\$ 778,411
Project renovations	328,671	5,581,711
Faculty	65,407	80,201
Lectures and awards	9,278	8,009
Other	245,055	262,367
	\$ 1,225,587	\$ 6,710,699

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 generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Seminary's Board of Trustees has interpreted the North Carolina enacted version of 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 5 percent. 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 percent 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, 2010 and 2009, the aggregate amount that the fair values of these endowments was below the donor or NCUPMIFA required levels was \$319,705 and \$303,149, 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, 2010 and 2009, appropriations of \$100,033 and \$75,456, respectively, were made on funds with deficiencies.

The following table summarizes changes in endowment net assets for the years ended July 31, 2010 and 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, August 1, 2008	\$ 9,827,825	\$ 772,582	\$ 14,957,401	\$ 25,557,808
Net asset reclassification based on change in law	(1,514,256)	1,514,256	-	-
Endowment net assets after reclassification	8,313,569	2,286,838	14,957,401	25,557,808
Contributions	-	-	413,895	413,895
Interest, other investment income, net of expenses, and realized and unrealized losses	(1,211,445)	(583,664)	(533,685)	(2,328,794)
Appropriations of endowment assets for expenditure	(418,479)	(380,153)	-	(798,632)
Appropriations of quasi-endowment assets	(1,842,254)	-	-	(1,842,254)
Net asset reclassification of underwater endowments	(303,149)	303,149	-	-
Endowment net assets, July 31, 2009	4,538,242	1,626,170	14,837,611	21,002,023
Contributions	-	-	717,820	717,820
Interest, other investment income, net of expenses, and realized and unrealized gains (losses)	1,900,136	(159,487)	71,872	1,812,521
Appropriations of endowment assets for expenditure	(490,045)	(387,423)	-	(877,468)
Designation of quasi-endowment assets	339,392	-	-	339,392
Reclassification due to change in donor restrictions	-	(105,824)	105,824	-
Net asset reclassification of underwater endowments	(16,556)	16,556	-	-
Endowment net assets, July 31, 2010	\$ 6,271,169	\$ 989,992	\$ 15,733,127	\$ 22,994,288

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 14. Endowment Funds (Continued)

The following table summarizes the composition of endowment net assets by fund type on July 31, 2010 and 2009:

2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Faculty	\$ -	\$ -	\$ 5,937,056	\$ 5,937,056
Scholarships	(53,023)	664,287	4,879,500	5,490,764
Institutional support	-	-	4,131,642	4,131,642
Lectures and awards	(8,493)	50,469	362,957	404,933
Library	-	-	274,471	274,471
Plant maintenance	-	-	147,501	147,501
Other	(258,189)	275,236	-	17,047
	(319,705)	989,992	15,733,127	16,403,414
Board designated endowment funds	6,590,874	-	-	6,590,874
Total endowment net assets	\$ 6,271,169	\$ 989,992	\$ 15,733,127	\$ 22,994,288
2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Faculty	\$ -	\$ 309,506	\$ 5,438,574	\$ 5,748,080
Scholarships	(50,277)	866,203	4,600,860	5,416,786
Institutional support	-	-	4,110,515	4,110,515
Lectures and awards	(8,053)	65,521	318,360	375,828
Library	-	48,816	246,880	295,696
Plant maintenance	-	30,156	122,422	152,578
Other	(244,819)	305,968	-	61,149
	(303,149)	1,626,170	14,837,611	16,160,632
Board designated endowment funds:	4,841,391	-	-	4,841,391
Total endowment net assets	\$ 4,538,242	\$ 1,626,170	\$ 14,837,611	\$ 21,002,023

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 15. Lease Commitments

The Seminary has various operating leases primarily for office equipment and student housing that expire between 2011 and 2015. Total rental expense under cancelable and noncancelable operating leases was \$1,855,513 and \$1,626,783 for 2010 and 2009, respectively. During 2008, the Seminary entered into a capital lease for office equipment that expires in 2011.

At July 31, 2010, the future minimum lease payments under noncancelable operating leases and capital leases are as follows:

Year	Operating	Capital
2011	\$ 1,907,485	\$ 23,889
2012	1,891,965	-
2013	1,890,270	-
2014	1,414,629	-
2015	208,368	-
Total future minimum lease payments	\$ 7,312,717	23,889
Less amount representing interest (rate at 6.85%)		733
Present value of minimum lease obligations		23,156
Less current portion		23,156
Long-term portion of capital lease obligations		\$ -

**Independent Auditor's Report
on the Supplementary Information**

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

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information which follows is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information, except for the schedule of insurance in force, on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Raleigh, North Carolina
January 20, 2011

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

**Statements of Activities Information
Years Ended July 31, 2010 and 2009**

Cooperative Program, Southern Baptist Convention	2010	2009
Churches/miscellaneous	\$ 208,991	\$ 226,665
Miscellaneous individuals	5,367	7,229
Alabama	745,589	808,877
Alaska	9,904	9,839
Arizona	35,891	36,071
Arkansas	352,653	351,580
California	83,379	96,204
Colorado	20,159	26,015
Dakota Fellowship	1,675	1,664
District of Columbia	1,314	1,484
Florida	542,659	589,640
Georgia	755,581	712,907
Hawaii	15,142	15,301
Illinois	102,780	105,232
Indiana	43,561	38,346
Iowa	4,401	4,669
Kansas-Nebraska	31,919	44,701
Kentucky	346,190	366,879
Louisiana	311,805	361,672
Maryland-Delaware	74,119	83,360
Michigan	15,157	20,619
Minnesota-Wisconsin	2,393	2,310
Mississippi	463,863	505,882
Missouri	230,401	243,962
Montana Fellowship	4,085	4,467
Nevada	11,142	11,863
New England	5,505	5,572
New Mexico	48,254	53,835
New York	9,384	9,661
North Carolina	412,144	430,539
Northwest	27,014	29,347
Ohio	67,951	74,960
Oklahoma	383,377	433,411
Pennsylvania-South Jersey	8,878	9,772
South Carolina	540,230	506,791
Tennessee	600,728	639,243
Texas, BGCT	517,713	567,290
Texas, SBTC	569,198	595,295
Utah-Idaho	7,273	7,543
Virginia, BGAV	75,702	86,607
Virginia, SBCV	183,859	188,599
West Virginia	19,846	20,909
Wyoming	6,892	7,508
Puerto Rico/U. S. Virgin Islands	204	105
Other	162,003	105,291
Total cooperative program	\$ 8,066,275	\$ 8,449,716

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Insurance In Force (Unaudited)

July 31, 2010

Type	Coinsurance	Amount
Commercial property blanket policy:		
Fire, lightning and extended coverage:		
Buildings and personal property	100%	\$106,629,151
Comprehensive crime:		
Employee dishonesty		1,000,000
Forgery or alteration		1,000,000
General liability:		
General aggregate limit		3,000,000
Employee benefits liability		3,000,000
Educators legal liability		1,000,000
Clergyperson professional legal liability		1,000,000
Religious institution's directors and officers' legal liability		1,000,000
Automobile liability and uninsured motorists		1,000,000
Workers' compensation		N.C. Standard
Property floater:		
Data processing breakdown		ACV
Business personal property		ACV
Camera equipment		ACV
Telephone system		ACV
Scheduled property		ACV
Miscellaneous property floater		ACV
Umbrella liability		10,000,000
Trustee travel (per Trustee)		100,000

ACV=Actual cash value

Note: This schedule was prepared from information taken from the policies and does not purport to show all details of the coverage or the adequacy thereof.