Consolidated Financial Statements and Report of Independent Certified Public Accountants

Southwestern Baptist Theological Seminary

July 31, 2003

Report of Independent Certified Public Accountants

The Board of Trustees
Southwestern Baptist Theological Seminary

We have audited the accompanying consolidated statement of financial position of Southwestern Baptist Theological Seminary (the Seminary) as of July 31, 2003, and the related consolidated statements of activities and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Seminary's 2002 financial statements and in our report dated October 4, 2002, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Seminary as of July 31, 2003, and the consolidated changes in its net assets and its consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2003 on the Seminary's compliance and on internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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October 3, 2003

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Southwestern Baptist Theological Seminary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

July 31, 2003
(with comparative totals for 2002)

ASSETS	Unrestricted	Temporarily restricted	Permanently restricted	2003 Total	2002 Total (as restated)
Cash and cash equivalents	$ 5,930,622	$ 4,800	$ 11,279	$ 5,946,701	$ 8,363,821
Receivables, net	731,078	-	113,041	844,119	821,691
Pledges receivable, net	-	752,631	544,811	1,297,442	1,667,082
Other assets	564,863	-	1,000	565,863	452,634
Investments					
Endowment funds	30,765,585	-	27,554,681	58,320,266	56,002,625
Other	11,735,351	5,146,831	558,899	17,441,081	18,484,792
	42,500,936	5,146,831	28,113,580	75,761,347	74,487,417
Investments held in trust by third parties at fair value					
Endowment funds	-	1,663,903	35,508,488	37,172,391	36,314,588
Annuity funds	-	1,789,161	14,119,392	15,908,553	14,828,015
		3,453,064	49,627,880	53,080,944	51,142,603
Due from (to) other funds	(1,013,331)	(576,688)	1,590,019	-	-
Property, plant and equipment, net	57,522,676	6,465,309	-	63,987,985	64,628,892
Total assets	$106,236,844	$15,245,947	$ 80,001,610	$201,484,401	$201,564,140

Southwestern Baptist Theological Seminary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CONTINUED

July 31, 2003
(with comparative totals for 2002)

LIABILITIES AND NET ASSETS	Unrestricted	Temporarily restricted	Permanently restricted	2003 Total	2002 Total (as restated)
Accounts payable	$ 464,226	$ -	$ -	$ 464,226	$ 1,276,867
Accrued salaries and benefits	552,172	-	-	552,172	623,517
Deposits and agency funds	184,414	-	-	184,414	186,807
Deferred income	426,667	-	-	426,667	612,312
Annuity payment liability	-	-	1,771,589	1,771,589	1,654,365
Accrued postretirement benefit obligation	16,485,102	-	-	16,485,102	15,063,458
Accrued postemployment benefit obligation	346,899	-	-	346,899	289,320
Total liabilities	18,459,480	-	1,771,589	20,231,069	19,706,646
Net assets					
Unrestricted					
For current operations	4,532,549	-	-	4,532,549	5,252,087
Designated for specific purposes	11,212,606	-	-	11,212,606	9,725,257
Endowment	31,696,398	-	-	31,696,398	31,036,029
Invested in property, plant and equipment	57,167,812	-	-	57,167,812	58,435,935
Unfunded postretirement and postemployment benefits	(16,832,001)	-	-	(16,832,001)	(15,352,778)
Temporarily restricted					
Capital projects	-	2,545,202	-	2,545,202	2,975,615
Scholarships	-	1,845,017	-	1,845,017	1,693,357
Other	-	9,669,654	-	9,669,654	11,795,038
Annuity and life income funds	-	1,186,074	-	1,186,074	1,264,526
Permanently restricted					
Loan funds	-	-	1,533,949	1,533,949	1,540,204
Annuity and life income funds	-	-	13,946,035	13,946,035	12,585,873
Endowment funds	-	-	62,750,037	62,750,037	60,906,351
Total net assets	87,777,364	15,245,947	78,230,021	181,253,332	181,857,494
Total liabilities and net assets	$106,236,844	$15,245,947	$80,001,610	$201,484,401	$201,564,140

The accompanying notes are an integral part of this statement.

Southwestern Baptist Theological Seminary

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended July 31, 2003
(with comparative totals for 2002)

	Unrestricted	Temporarily restricted	Permanently restricted	2003 Total	2002 Total (as restated)
Revenues and other additions					
Tuition and fees	$ 7,820,042	$ -	$ -	$ 7,820,042	$ 7,606,192
Scholarships and fellowships	(3,058,742)	-	-	(3,058,742)	(2,871,984)
Gifts					
Cooperative program	10,074,507	-	-	10,074,507	10,883,990
Student aid	-	2,225,746	-	2,225,746	2,282,909
Endowment	20,575	-	1,117,757	1,138,332	1,764,813
Other	495,425	314,564	133,408	943,397	9,434,434
Investment return	4,943,702	510,107	(82,630)	5,371,179	(935,204)
Auxiliary enterprises	5,101,683	-	-	5,101,683	5,206,599
Change in value of third party trusts	-	(872,373)	2,029,058	1,156,685	(8,023,638)
Other	1,418,830	-	-	1,418,830	2,025,685
Net assets released from restrictions	4,660,633	(4,660,633)	-	-	-
Total revenues and other additions	31,476,655	(2,482,589)	3,197,593	32,191,659	27,373,796
Expenses and other deductions					
Instructional	20,476,683	-	-	20,476,683	19,692,147
Institutional support	2,772,078	-	-	2,772,078	2,117,935
Student services	1,875,915	-	-	1,875,915	1,840,035
Institutional advancement	1,977,476	-	-	1,977,476	1,931,796
Auxiliary enterprises	5,693,669	-	-	5,693,669	5,868,871
Total expenses and other deductions	32,795,821	-	-	32,795,821	31,450,784
Change in net assets	(1,319,166)	(2,482,589)	3,197,593	(604,162)	(4,076,988)
Net assets at beginning of year	89,096,530	17,728,536	75,032,428	181,857,494	185,934,482
Net assets at end of year	$87,777,364	$15,245,947	$78,230,021	$181,253,332	$181,857,494

The accompanying notes are an integral part of this statement.

Southwestern Baptist Theological Seminary

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended July 31, 2003
(with comparative totals for 2002)

	2003	2002 (as restated)
Cash flows from operating activities		
Change in net assets	$ (604,162)	$(4,076,988)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	2,265,950	2,287,696
(Gain) loss on sale of property, plant and equipment	260,851	(222,645)
Contributions restricted for endowments and acquisition of long-term assets	(1,485,720)	(2,712,689)
Noncash contributions	-	(7,010,372)
Net unrealized losses on investments	1,288,915	8,675,701
Net realized gains on investments	(1,594,858)	(1,007,211)
Change in value of third party trusts	(1,156,685)	8,023,638
Changes in operating assets and liabilities		
Receivables	(22,428)	(378,018)
Pledges receivable	369,640	(89,385)
Other assets	(113,229)	(44,921)
Investments held in trust by third parties	(781,656)	(2,744,518)
Accounts payable	(812,641)	715,743
Other accrued liabilities	(73,738)	335,876
Deferred income	(185,645)	178,335
Annuity payment liability	117,224	22,634
Accrued postretirement benefit obligation	1,421,644	872,289
Accrued postemployment benefit obligation	57,579	5,851
Net cash provided by (used in) operating activities	(1,048,959)	2,831,016
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,012,479	2,334,088
Purchase of investments	(1,980,466)	(1,334,949)
Proceeds from sale of property, plant and equipment	-	241,162
Purchase of property, plant and equipment	(1,885,894)	(2,294,236)
Net cash used in investing activities	(2,853,881)	(1,053,935)
Cash flows from financing activities		
Contributions restricted for endowments and acquisition of long-term assets	1,485,720	2,712,689
Net increase (decrease) in cash and cash equivalents	(2,417,120)	4,489,770
Cash and cash equivalents at beginning of year	8,363,821	3,874,051
Cash and cash equivalents at end of year	$ 5,946,701	$ 8,363,821

The accompanying notes are an integral part of this statement.

NOTE A - NATURE OF OPERATIONS

Southwestern Baptist Theological Seminary (the Seminary) is a Texas nonprofit seminary chartered on March 14, 1908 to provide theological education for individuals engaging in Christian ministry. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is not organized for pecuniary profit and has no capital stock; it is fostered and supported by the Southern Baptist Convention and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the Southern Baptist Convention and others for financial support.

The Seminary is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Seminary consolidates the accounts of the Southwestern Baptist Seminary Development Foundation (the Foundation), a Texas nonprofit corporation. The Foundation was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. In the event of dissolution of the Foundation, any assets which it may have shall vest in the Seminary.

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

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 by actions of the Seminary and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be retained permanently. Generally, the donors of these assets permit the Seminary to use all or part of the income earned on related investments for general or specific purposes.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity.

Income and investment gains and losses of endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- as changes in unrestricted net assets in all other cases.

<u>Cash Equivalents</u>

The Seminary considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. The carrying value of such instruments approximates fair value.

<u>Accounts Receivable</u>

The Seminary's accounts receivable are due primarily from donors and students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of the semester and are stated at amounts due from students net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the semester are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Students whose accounts are not current are not allowed to enroll in classes. Allowance for doubtful accounts for the years ended July 31, 2003 and 2002 was approximately $78,000 and $85,000, respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments

Investments in debt, equity securities, and mineral rights are stated at fair value. The net realized and unrealized gains or losses of investments are reflected in the statement of activities.

Annuity Funds

The Seminary receives assets that will be divided between the Seminary and other beneficiaries upon the death of the donor. Investments held in these split-interest agreements are stated at market value. The net realized and unrealized gains or losses in market value of investments are reflected in the statement of activities as a change in value of third-party trusts. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions.

Investments Held in Trust by Third Parties

Investments in trusts held by third parties are stated at fair value. The net realized and unrealized gains or losses in market value of investments are reflected in the statement of activities as a change in value of third party trusts.

Financial Instruments

The carrying value of receivables, investments, accounts payable and annuity liabilities in the statement of financial position approximate the fair value of those instruments because they are stated at market value or at present value using current discount rates.

Property, Plant and Equipment

Investment in property, plant and equipment is stated at cost at the date of acquisition or fair market value at the date of donation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets over their estimated service lives ranging from five to forty years on a straight-line basis.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

The preparation of 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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Statements

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Seminary's consolidated financial statements for the year ended July 31, 2002, from which the summarized information was derived.

NOTE C - PLEDGES RECEIVABLE

Included in pledges receivable are the following unconditional promises to give:

	July 31,	
	2003	2002
Capital projects	$1,003,155	$1,244,649
Endowment	646,940	518,433
Scholarships	6,039	7,874
Other current operations	-	322,951
Unconditional promises to give before allowance for uncollectibles and unamortized discount	1,656,134	2,093,907
Less: allowance for uncollectible pledges	(332,157)	(314,086)
	1,323,977	1,779,821
Less: unamortized discount (at 1.2% to 6.5%)	(26,535)	(112,739)
Net unconditional promises to give	$1,297,442	$1,667,082

The maturity of pledges is as follows at July 31, 2003:

Less than one year	$1,265,161
One to five years	243,850
More than five years	147,123
Total	$1,656,134

NOTE D - INVESTMENTS

Investments consist of the following:

	July 31,	
	2003	2002
Equity securities	$11,227,460	$11,797,776
Fixed income	701,139	734,055
Pooled investments	59,119,416	49,912,646
Short-term investments	2,453,290	10,047,260
Real estate mortgage loans	505,380	505,380
Real estate	555,140	573,240
Other	1,199,522	917,060
	$75,761,347	$74,487,417

Pooled investments consist of domestic and international equity securities, fixed income securities and short-term investments.

The following schedule summarizes investment return:

	Years ended July 31,	
	2003	2002
Dividend and interest income	$ 5,065,236	$ 6,733,286
Net realized gains on investments	1,594,858	1,007,211
Net unrealized losses on investments	(1,288,915)	(8,675,701)
	$ 5,371,179	$ (935,204)

NOTE E - INTERFUND BORROWINGS

Interfund borrowings bear no interest and are to be repaid when funds are available. Borrowings are recorded as assets in the funds advancing the monies and as liabilities in the funds receiving the monies.

NOTE F - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	July 31,	
	2003	2002
Buildings	$ 70,979,754	$ 69,859,921
Equipment	10,660,523	11,208,325
Improvements other than buildings	4,738,699	4,699,424
Library books/microfilm	5,918,683	5,749,599
Mobile home park	60,724	60,724
	92,358,383	91,577,993
Less accumulated depreciation	(30,793,836)	(29,372,539)
	61,564,547	62,205,454
Land	2,423,438	2,423,438
	$ 63,987,985	$ 64,628,892

NOTE G - EMPLOYEE BENEFITS

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by the Annuity Board of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary contributes 10% of the participant's salary to the plan and also matches the participant's contributions up to a maximum of 5% of their salary. The Seminary's contribution for the years ended July 31, 2003 and 2002 was approximately $1,055,000 and $1,008,000, respectively.

Postretirement and Postemployment Benefits

Although no formal plan exists, the Seminary has a practice of providing postretirement benefits to retired employees. The Seminary is not funding any past or future postretirement obligations, and future payments will be dependent upon sufficient funds being available to pay these obligations. Because the Seminary has paid benefits in the past, and intends to pay future benefits, the Seminary adopted Statement of Financial Accounting Standards (SFAS) No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* which requires the Seminary to accrue the estimated cost of retiree benefits other than pensions during the employee's active service period, and SFAS No. 112, *Employers' Accounting for Postemployment Benefits,* which requires the Seminary to accrue the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement.

NOTE G - EMPLOYEE BENEFITS - Continued

The following table sets forth the future obligation:

	July 31, 2003	July 31, 2002
Benefit obligation	$ 25,345,945	$ 19,443,875
Fair value of plan assets	-	-
Future obligation	$ 25,345,945	$ 19,443,875
Amount recognized in the statement of financial position as accrued benefit liability	$(16,832,001)	$(15,352,778)
Employer contributions	$ 788,128	$ 678,064
Benefits paid	$ 788,128	$ 678,064
Net periodic benefit cost	$ 2,267,351	$ 1,556,204
Weighted average assumptions		
Discount rate	6.0%	6.5%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for preretirement coverage and 10% for postretirement coverage. These rates are expected to decrease 0.5% every year until they reach a target rate of 5%.

NOTE H - FUND-RAISING ACTIVITIES

Fund-raising expense for the years ended July 31, 2003 and 2002 was approximately $1,103,000 and $1,147,000, respectively. These expenses are included in institutional advancement in the accompanying consolidated statement of activities.

NOTE I - COOPERATIVE PROGRAM

The Seminary's primary source of revenue is the Southern Baptist Convention (SBC). Churches in the cooperative program contribute to the SBC, which passes funds to the Seminary and other institutions. For the years ended July 31, 2003 and 2002, the Seminary received approximately $10,100,000 and $10,900,000, respectively.

NOTE J - COMMITMENTS

The Seminary has a noncancelable lease for copier services expiring July 2006. The Seminary's future minimum lease payments under this lease agreement are as follows at July 31, 2003:

Year ending July 31,	
2004	$181,470
2005	181,470
2006	166,348
	$529,288

Total rent expense for the years ended July 31, 2003 and 2002 was approximately $149,000 and $158,000, respectively.

NOTE K - PRIOR PERIOD RESTATEMENT

During the year ended July 31, 2003, management recorded prior period adjustments relating to medical self insurance and restricted contributions. Accordingly, the following restatements were made to net assets as of July 31, 2002:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at July 31, 2002, as previously reported	$88,949,530	$22,248,944	$74,774,186	$185,972,660
Restatement	147,000	(4,520,408)	258,242	(4,115,166)
Net assets at July 31, 2002, restated	$89,096,530	$17,728,536	$75,032,428	$181,857,494

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Southwestern Baptist Theological Seminary

July 31, 2004

Grant Thornton

Accountants and Business Advisors

Report of Independent Certified Public Accountants

The Board of Trustees
Southwestern Baptist Theological Seminary

We have audited the accompanying consolidated statements of financial position of Southwestern Baptist Theological Seminary and Subsidiary (the Seminary) as of July 31, 2004 and 2003, 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 consideration of internal control over financial statement reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Seminary's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Seminary as of July 31, 2004 and 2003, and the consolidated changes in its net assets and its consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note K to the financial statements, previously reported third party trusts, certain pledge receivables and net assets for the years ended July 31, 2002 and 2003 have been restated to reflect the appropriate valuation of split-interest agreements, including corrections of discount rates used in calculations of net present value, revaluation of trust assets to reflect liabilities to beneficiaries, adjustment for certain previously recorded agreements determined to be revocable, and restatement to reflect donor intent.

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Southwestern Baptist Theological Seminary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

July 31, 2004

ASSETS	Unrestricted	Temporarily restricted	Permanently restricted	2004 Total
Cash and cash equivalents	$ 6,078,797	$ 70,160	$ 17,571	$ 6,166,528
Receivables, net	623,435	33,960	81,391	738,786
Pledges receivable, net	-	684,231	202,323	886,554
Other assets	555,074	-	-	555,074
Investments				
Endowment funds	34,561,822	-	25,940,319	60,502,141
Other	16,067,250	5,409,528	922,772	22,399,550
	50,629,072	5,409,528	26,863,091	82,901,691
Investments held in trust by third parties at fair value				
Endowment funds	-	1,433,299	38,044,768	39,478,067
Annuity funds	-	1,752,003	5,193,077	6,945,080
	-	3,185,302	43,237,845	46,423,147
Due from (to) other funds	(1,471,462)	(218,355)	1,689,817	-
Property, plant and equipment, net	56,254,760	6,722,833	-	62,977,593
Total assets	$112,669,676	$15,887,659	$72,092,038	$200,649,373

Southwestern Baptist Theological Seminary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

July 31, 2003
(As restated)

ASSETS	Unrestricted	Temporarily restricted	Permanently restricted	2003 Total
Cash and cash equivalents	$ 5,930,622	$ 4,800	$ 11,279	$ 5,946,701
Receivables, net	731,078	-	113,041	844,119
Pledges receivable, net	-	752,631	199,311	951,942
Other assets	564,863	-	1,000	565,863
Investments				
Endowment funds	30,765,585	-	27,554,681	58,320,266
Other	11,735,351	5,146,831	558,899	17,441,081
	42,500,936	5,146,831	28,113,580	75,761,347
Investments held in trust by third parties at fair value				
Endowment funds	-	1,663,903	35,508,488	37,172,391
Annuity funds	-	1,789,161	2,655,111	4,444,272
		3,453,064	38,163,599	41,616,663
Due from (to) other funds	(1,013,331)	(576,688)	1,590,019	-
Property, plant and equipment, net	57,522,676	6,465,309	-	63,987,985
Total assets	$106,236,844	$15,245,947	$ 68,191,829	$189,674,620

Southwestern Baptist Theological Seminary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CONTINUED

July 31, 2004

LIABILITIES AND NET ASSETS	Unrestricted	Temporarily restricted	Permanently restricted	2004 Total
Accounts payable	$ 527,369	$ -	$ -	$ 527,369
Accrued salaries and benefits	721,552	-	-	721,552
Deposits and agency funds	165,204	-	-	165,204
Deferred income	877,062	-	-	877,062
Accrued postretirement benefit obligation	18,580,652	-	-	18,580,652
Accrued postemployment benefit obligation	493,856	-	-	493,856
Total liabilities	21,365,695	-	-	21,365,695
Net assets				
Unrestricted				
For current operations	5,380,868	-	-	5,380,868
Designated for specific purposes	13,288,058	-	-	13,288,058
Endowment	35,557,834	-	-	35,557,834
Invested in property, plant and equipment	56,151,729	-	-	56,151,729
Unfunded postretirement and postemployment benefits	(19,074,508)	-	-	(19,074,508)
Temporarily restricted				
Capital projects	-	1,718,196	-	1,718,196
Scholarships	-	2,042,944	-	2,042,944
Other	-	10,374,516	-	10,374,516
Annuity and life income funds	-	1,752,003	-	1,752,003
Permanently restricted				
Loan funds	-	-	1,644,237	1,644,237
Annuity and life income funds	-	-	5,580,853	5,580,853
Endowment funds	-	-	64,866,948	64,866,948
Total net assets	91,303,981	15,887,659	72,092,038	179,283,678
Total liabilities and net assets	$112,669,676	$15,887,659	$72,092,038	$200,649,373

The accompanying notes are an integral part of these statements.

Southwestern Baptist Theological Seminary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CONTINUED

July 31, 2003
(As restated)

LIABILITIES AND NET ASSETS	Unrestricted	Temporarily restricted	Permanently restricted	2003 Total
Accounts payable	$ 464,226	$ -	$ -	$ 464,226
Accrued salaries and benefits	552,172	-	-	552,172
Deposits and agency funds	184,414	-	-	184,414
Deferred income	426,667	-	-	426,667
Accrued postretirement benefit obligation	16,485,102	-	-	16,485,102
Accrued postemployment benefit obligation	346,899	-	-	346,899
Total liabilities	18,459,480	-	-	18,459,480
Net assets				
Unrestricted				
For current operations	4,532,549	-	-	4,532,549
Designated for specific purposes	11,212,606	-	-	11,212,606
Endowment	31,696,398	-	-	31,696,398
Invested in property, plant and equipment	57,167,812	-	-	57,167,812
Unfunded postretirement and postemployment benefits	(16,832,001)	-	-	(16,832,001)
Temporarily restricted				
Capital projects	-	2,545,202	-	2,545,202
Scholarships	-	1,845,017	-	1,845,017
Other	-	9,669,654	-	9,669,654
Annuity and life income funds	-	1,186,074	-	1,186,074
Permanently restricted				
Loan funds	-	-	1,533,949	1,533,949
Annuity and life income funds	-	-	2,893,181	2,893,181
Endowment funds	-	-	63,764,699	63,764,699
Total net assets	87,777,364	15,245,947	68,191,829	171,215,140
Total liabilities and net assets	$106,236,844	$15,245,947	$68,191,829	$189,674,620

The accompanying notes are an integral part of these statements.

Southwestern Baptist Theological Seminary

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended July 31, 2004

	Unrestricted	Temporarily restricted	Permanently restricted	2004 Total
Revenues and other additions				
Tuition and fees	$ 8,313,190	$ -	$ -	$ 8,313,190
Scholarships and fellowships	(2,954,254)	-	-	(2,954,254)
Gifts				
Cooperative program	10,002,670	-	-	10,002,670
Student aid	-	2,011,922	-	2,011,922
Endowment	56,504	-	1,246,674	1,303,178
Other	409,946	423,123	-	833,069
Investment return	10,397,616	2,425,409	99,694	12,922,719
Auxiliary enterprises	5,240,786	-	-	5,240,786
Change in value of third-party trusts	-	(439,670)	2,553,841	2,114,171
Other	2,125,149	-	-	2,125,149
Net assets released from restrictions	3,779,072	(3,779,072)	-	-
Total revenues and other additions	37,370,679	641,712	3,900,209	41,912,600
Expenses and other deductions				
Instructional	20,812,469	-	-	20,812,469
Institutional support	3,013,296	-	-	3,013,296
Student services	1,850,571	-	-	1,850,571
Institutional advancement	2,238,736	-	-	2,238,736
Auxiliary enterprises	5,928,990	-	-	5,928,990
Total expenses and other deductions	33,844,062	-	-	33,844,062
Change in net assets	3,526,617	641,712	3,900,209	8,068,538
Net assets at beginning of year, as restated	87,777,364	15,245,947	68,191,829	171,215,140
Net assets at end of year	$91,303,981	$15,887,659	$72,092,038	$179,283,678

The accompanying notes are an integral part of these statements.

Southwestern Baptist Theological Seminary

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended July 31, 2003
(As restated)

	Unrestricted	Temporarily restricted	Permanently restricted	2003 Total
Revenues and other additions				
Tuition and fees	$ 7,820,042	$ -	$ -	$ 7,820,042
Scholarships and fellowships	(3,058,742)	-	-	(3,058,742)
Gifts				
Cooperative program	10,074,507	-	-	10,074,507
Student aid	-	2,225,746	-	2,225,746
Endowment	20,575	-	1,117,757	1,138,332
Other	495,425	314,564	133,408	943,397
Investment return	4,943,702	510,107	(82,630)	5,371,179
Auxiliary enterprises	5,101,683	-	-	5,101,683
Change in value of third party trusts	-	(872,373)	(7,663,634)	(8,536,007)
Other	1,418,830	-	-	1,418,830
Net assets released from restrictions	4,660,633	(4,660,633)	-	-
Total revenues and other additions	31,476,655	(2,482,589)	(6,495,099)	22,498,967
Expenses and other deductions				
Instructional	20,476,683	-	-	20,476,683
Institutional support	2,772,078	-	-	2,772,078
Student services	1,875,915	-	-	1,875,915
Institutional advancement	1,977,476	-	-	1,977,476
Auxiliary enterprises	5,693,669	-	-	5,693,669
Total expenses and other deductions	32,795,821	-	-	32,795,821
Change in net assets	(1,319,166)	(2,482,589)	(6,495,099)	(10,296,854)
Net assets at beginning of year, as restated	89,096,530	17,728,536	74,686,928	181,511,994
Net assets at end of year	$87,777,364	$15,245,947	$68,191,829	$171,215,140

The accompanying notes are an integral part of these statements.

Southwestern Baptist Theological Seminary

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended July 31, 2004

	2004	2003 (as restated)
Cash flows from operating activities		
Change in net assets	$ 8,068,538	$(10,296,854)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	2,360,805	2,265,950
Loss on sale of property, plant and equipment	87,446	260,851
Contributions restricted for endowments and acquisition of long-term assets	(1,669,797)	(1,485,720)
Net unrealized losses (gains) on investments	(4,668,563)	1,288,915
Net realized gains on investments	(2,015,145)	(1,594,858)
Change in value of third party trusts	(2,114,171)	8,536,007
Changes in operating assets and liabilities		
Receivables	105,333	(22,428)
Pledges receivable	65,388	369,640
Other assets	10,789	(113,229)
Investments held in trust by third parties	(2,692,313)	(664,432)
Accounts payable	63,143	(812,641)
Other accrued liabilities	150,170	(73,738)
Deferred income	450,395	(185,645)
Accrued postretirement benefit obligation	2,095,550	1,421,644
Accrued postemployment benefit obligation	146,957	57,579
Net cash provided by (used in) operating activities	444,525	(1,048,959)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	898,037	1,012,479
Purchase of investments	(1,354,673)	(1,980,466)
Proceeds from sales of property, plant and equipment	5,690	-
Purchase of property, plant and equipment	(1,443,549)	(1,885,894)
Net cash used in investing activities	(1,894,495)	(2,853,881)
Cash flows from financing activities		
Contributions restricted for endowments and acquisition of long-term assets	1,669,797	1,485,720
Net increase (decrease) in cash and cash equivalents	219,827	(2,417,120)
Cash and cash equivalents at beginning of year	5,946,701	8,363,821
Cash and cash equivalents at end of year	$ 6,166,528	$ 5,946,701

The accompanying notes are an integral part of these statements.

Southwestern Baptist Theological Seminary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2004 and 2003

NOTE A - NATURE OF OPERATIONS

Southwestern Baptist Theological Seminary (the Seminary) is a Texas nonprofit seminary chartered on March 14, 1908, to provide theological education for individuals engaging in Christian ministry. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is not organized for pecuniary profit and has no capital stock; it is fostered and supported by the Southern Baptist Convention ("SBC") and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

The Seminary is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Seminary consolidates the accounts of the Southwestern Baptist Seminary Development Foundation (the Foundation), a Texas nonprofit corporation. The Foundation was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. In the event of dissolution of the Foundation, any assets which it may have shall vest in the Seminary.

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

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 by actions of the Seminary and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be retained permanently. Generally, the donors of these assets permit the Seminary to use all or part of the income earned on related investments for general or specific purposes.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity. Contribution received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted revenues.

Income and investment gains and losses of endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;

- as changes in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;

- as changes in unrestricted net assets in all other cases.

Cash Equivalents

The Seminary considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. The carrying value of such instruments approximates fair value.

Accounts Receivable

The Seminary's accounts receivable are due primarily from donors and students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of the semester and are stated at amounts due from students net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the semester are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Students whose accounts are not current are not allowed to enroll in classes.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for doubtful accounts for the years ended July 31, 2004 and 2003 was approximately $116,000 and $72,000, respectively.

Investments

Investments in debt, equity securities, and mineral rights are stated at fair value. The net realized and unrealized gains or losses of investments are reflected in the statement of activities.

Investments received by gift or bequest are carried at fair value at the date of acquisition. If fair value is not determinable at date of acquisition, the asset received by gift or bequest is recorded at a nominal value. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

Investments Held in Trust by Third Parties

The Seminary has split-interest agreements which are irrevocable charitable remainder trusts held by others and charitable gift annuities. At the dates these trusts are established, receivables and contribution revenues are recognized for the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the statement of activities as a change in value of third-party trusts. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions using a discount rate of 3.8% to 10.6%.

The Seminary is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts (as measured by the fair value of the underlying investments at the Seminary's fiscal year end) are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as endowment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Financial Instruments

The carrying value of receivables, investments, accounts payable and annuity liabilities in the statement of financial position approximate the fair value of those instruments because they are stated at market value or at present value using current discount rates.

Property, Plant and Equipment

Investment in property, plant and equipment is stated at cost at the date of acquisition or fair market value at the date of donation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets over their estimated service lives ranging from five to forty years on a straight-line basis. Maintenance and repairs are charged to operations as incurred. Gains and losses on the disposal of property, plant and equipment are recorded in the period incurred.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of 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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

NOTE C - PLEDGES RECEIVABLE

Included in pledges receivable are the following unconditional promises to give:

	July 31,	
	2004	2003 (as restated)
Capital projects	$ 815,501	$1,003,155
Endowment	242,515	301,440
Scholarships	11,018	6,039
Unconditional promises to give before allowance for uncollectibles and unamortized discount	1,069,034	1,310,634
Less: allowance for uncollectible pledges	(160,355)	(332,157)
	908,679	978,477
Less: unamortized discount (at 2.1% to 5.2%)	(22,125)	(26,535)
Net unconditional promises to give	$ 886,554	$ 951,942

NOTE C - PLEDGES RECEIVABLE - Continued

Changes in the Seminary's allowance for doubtful accounts related to pledge receivables are as follows:

	2004	2003
Beginning balance	$ 332,157	$314,086
Bad debt provision	88,065	65,666
Accounts written-off	(259,867)	(47,595)
Ending balance	$ 160,355	$332,157

The maturity of pledges is as follows at July 31, 2004:

Less than one year	$ 795,462
One to five years	239,112
More than five years	34,460
Total	$1,069,034

Conditional pledges were approximately $3,800,000 at July 31, 2004 and 2003.

NOTE D - INVESTMENTS

Investments consist of the following:

	July 31,	
	2004	2003
Equity securities	$10,578,334	$11,227,460
Fixed income	785,643	701,139
Pooled investments	61,061,261	59,119,416
Short-term investments	7,859,779	2,453,290
Real estate mortgage loans	816,348	505,380
Real estate	545,088	555,140
Other	1,255,238	1,199,522
	$82,901,691	$75,761,347

Pooled investments consist of domestic and international equity securities, fixed income securities and short-term investments.

NOTE D - INVESTMENTS - Continued

The following schedule summarizes investment return:

	Years ended July 31,	
	2004	2003
Dividend and interest income	$ 6,239,011	$ 5,065,236
Net realized gains on investments	2,015,145	1,594,858
Net unrealized gains (losses) on investments	4,668,563	(1,288,915)
	$12,922,719	$ 5,371,179

Investment fees are netted against investment return.

NOTE E - INTERFUND BORROWINGS

Interfund borrowings bear no interest and are to be repaid when funds are available. Borrowings are recorded as assets in the funds advancing the monies and as liabilities in the funds receiving the monies.

NOTE F - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	July 31,	
	2004	2003
Buildings	$ 71,531,526	$ 70,979,754
Equipment	11,015,041	10,660,523
Improvements other than buildings	4,785,642	4,738,699
Library books/microfilm	6,129,913	5,918,683
Mobile home park	60,724	60,724
	93,522,846	92,358,383
Less accumulated depreciation	(32,968,691)	(30,793,836)
	60,554,155	61,564,547
Land	2,423,438	2,423,438
	$ 62,977,593	$ 63,987,985

NOTE G - EMPLOYEE BENEFITS

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by the Annuity Board of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary contributes 10% of the participant's salary to the plan and also matches the participant's contributions up to a maximum of 5% of their salary. The Seminary's contribution for the years ended July 31, 2004 and 2003 was approximately $1,089,000 and $1,055,000, respectively.

Postretirement and Postemployment Benefits

Although no formal plan exists, the Seminary has a practice of providing postretirement benefits to retired employees. The Seminary is not funding any past or future postretirement obligations, and future payments will be dependent upon sufficient funds being available to pay these obligations. Because the Seminary has paid benefits in the past, and intends to pay future benefits, the Seminary adopted Statement of Financial Accounting Standards (SFAS) No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* which requires the Seminary to accrue the estimated cost of retiree benefits other than pensions during the employee's active service period, and SFAS No. 112, *Employers' Accounting for Postemployment Benefits,* which requires the Seminary to accrue the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement.

The following table sets forth the future obligation:

	July 31,	
	2004	2003
Benefit obligation	$ 25,266,879	$ 25,345,945
Fair value of plan assets	-	-
Future obligation	$ 25,266,879	$ 25,345,945
Amount recognized in the statement of financial position as accrued benefit liability	$(19,074,508)	$(16,832,001)
Employer contributions	$ 982,208	$ 788,128
Benefits paid	$ 982,208	$ 788,128
Net periodic benefit cost	$ 3,224,715	$ 2,267,351
Weighted average assumptions		
Discount rate	6.25%	6.0%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

NOTE G - EMPLOYEE BENEFITS - Continued

For measurement purposes, a 9.5% and 10.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for preretirement coverage and 9.5% and 10.0% for postretirement coverage for July 31, 2004 and 2003, respectively. As of July 31, 2004 and 2003, respectively, these rates are expected to decrease 0.75% and 0.50% every year until they reach a target rate of 5%.

The following pension benefit payments are expected to be paid in the following fiscal years:

2004-2005	$1,176,441
2005-2006	1,251,758
2006-2007	1,317,379
2007-2008	1,411,505
2008-2009	1,460,246
2009-2014	8,678,270

NOTE H - FUND-RAISING ACTIVITIES

Fund-raising expense for the years ended July 31, 2004 and 2003 was approximately $1,251,000 and $1,103,000, respectively. These expenses are included in institutional advancement in the accompanying consolidated statement of activities.

NOTE I - COOPERATIVE PROGRAM

The Seminary's primary source of revenue is from the SBC. Churches in the cooperative program contribute to the SBC, which passes funds to the Seminary and other institutions. For the years ended July 31, 2004 and 2003, the Seminary received approximately $10,003,000 and $10,100,000, respectively.

NOTE J - COMMITMENTS

The Seminary has a noncancelable operating lease for copier services expiring July 2006. The Seminary's future minimum lease payments under this lease agreement are as follows at July 31, 2004:

Year ending July 31,	
2005	$181,470
2006	166,348
	$347,818

Total rent expense for the years ended July 31, 2004 and 2003 was approximately $184,000 and $149,000, respectively.

NOTE K - PRIOR PERIOD RESTATEMENT

Certain restatements have been made to the 2002 and 2003 net assets. These restatements related to the valuation of split-interest agreements, including correction of discount rates used in calculations of net realizable value, revaluation of trust assets to reflect liabilities to beneficiaries, adjustment for certain previously recorded agreements determined to be revocable, and restatement to reflect donor intent. These restatements are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at July 31, 2002, as previously reported	$88,949,530	$22,248,944	$74,774,186	$185,972,660
Restatement	147,000	(4,520,408)	(87,258)	(4,460,666)
Net assets at July 31, 2002, as restated	89,096,530	17,728,536	74,686,928	181,511,994
Restatement	(1,319,166)	(2,482,589)	(6,495,099)	(10,296,854)
Net assets at July 31, 2003, as restated	$87,777,364	$15,245,947	$68,191,829	$171,215,140

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Financial Statements

July 31, 2005 and 2004

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Financial Statements
July 31, 2005 and 2004

TABLE OF CONTENTS

RATLIFF & SOMMERVILLE, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
Southwestern Baptist Theological Seminary:

We have audited the accompanying consolidated statement of financial position of Southwestern Baptist Theological Seminary (the "Seminary")(a Texas not-for-profit corporation) as of July 31, 2005, and the related consolidated statements of activities, and cash flows for the year 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 audit. The consolidated financial statements of the Seminary as of July 31, 2004, were audited by other auditors whose report dated October 6, 2004, expressed an unqualified opinion on those statements.

We conducted our audit 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 consolidated 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 our audit provides 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 Southwestern Baptist Theological Seminary as of July 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Ratliff & Sommerville, P.C.

October 7, 2005

1600 E. Pioneer Parkway, Suite 520 • Arlington, TX 76010 • (817) 795-5046 • Fax (817) 795-5516
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SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statement of Financial Position

July 31, 2005

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and cash equivalents	$ 5,490,627	$ 70,160	$ 17,630	$ 5,578,417
Accounts receivable, net	780,821	33,960	95,988	910,769
Pledges receivable, net	161,955	102,701	104,762	369,418
Other assets	591,315	-	-	591,315
Investments				
Endowment funds	40,420,886	-	26,099,256	66,520,142
Other	17,901,048	4,421,802	601,097	22,923,947
	58,321,934	4,421,802	26,700,353	89,444,089
Investments held in trust by third parties				
Endowment funds	-	1,504,859	44,467,281	45,972,140
Annuity funds	-	472,991	4,858,858	5,331,849
	-	1,977,850	49,326,139	51,303,989
Due from (to) other funds	(7,036,290)	5,084,243	1,952,047	-
Property, plant and equipment, net	56,459,695	6,617,479	-	63,077,174
Total assets	$ 114,770,057	$ 18,308,195	$ 78,196,919	$ 211,275,171
LIABILITIES AND NET ASSETS				
Accounts payable	$ 735,193	$ -	$ -	$ 735,193
Accrued salaries and benefits	533,314	-	-	533,314
Deposits and agency funds	171,229	-	-	171,229
Deferred income	801,148	-	-	801,148
Accrued postretirement benefit obligation	20,539,425	-	-	20,539,425
Accrued postemployment benefit obligation	527,590	-	-	527,590
Total liabilities	23,307,899	-	-	23,307,899
Net Assets				
Unrestricted	91,462,158	-	-	91,462,158
Temporarily restricted	-	18,308,195	-	18,308,195
Permanently restricted	-	-	78,196,919	78,196,919
Total net assets	91,462,158	18,308,195	78,196,919	187,967,272
Total liabilities and net assets	$ 114,770,057	$ 18,308,195	$ 78,196,919	$ 211,275,171

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statement of Financial Position
July 31, 2004

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and cash equivalents	$ 6,078,797	$ 70,160	$ 17,571	$ 6,166,528
Accounts receivable, net	623,435	33,960	81,391	738,786
Pledges receivable, net	-	684,231	202,323	886,554
Other assets	555,074	-	-	555,074
Investments				
Endowment funds	34,561,822	-	25,940,319	60,502,141
Other	16,067,250	5,409,528	922,772	22,399,550
	50,629,072	5,409,528	26,863,091	82,901,691
Investments held in trust by third parties				
Endowment funds	-	1,433,299	38,044,768	39,478,067
Annuity funds	-	1,752,003	5,193,077	6,945,080
	-	3,185,302	43,237,845	46,423,147
Due from (to) other funds	(1,471,462)	(218,355)	1,689,817	-
Property, plant and equipment, net	56,254,760	6,722,833	-	62,977,593
Total assets	$ 112,669,676	$ 15,887,659	$ 72,092,038	$ 200,649,373
LIABILITIES AND NET ASSETS				
Accounts payable	$ 527,369	$ -	$ -	$ 527,369
Accrued salaries and benefits	721,552	-	-	721,552
Deposits and agency funds	165,204	-	-	165,204
Deferred income	877,062	-	-	877,062
Accrued postretirement benefit obligation	18,580,652	-	-	18,580,652
Accrued postemployment benefit obligation	493,856	-	-	493,856
Total liabilities	21,365,695	-	-	21,365,695
Net Assets				
Unrestricted	91,303,981	-	-	91,303,981
Temporarily restricted	-	15,887,659	-	15,887,659
Permanently restricted	-	-	72,092,038	72,092,038
Total net assets	91,303,981	15,887,659	72,092,038	179,283,678
Total liabilities and net assets	$ 112,669,676	$ 15,887,659	$ 72,092,038	$ 200,649,373

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statement of Activities

For the Year Ended July 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions				
Tuition and fees	$ 8,059,203	$ -	$ -	$ 8,059,203
Scholarships and fellowships	(3,021,973)	-	-	(3,021,973)
Gifts				
Cooperative program	9,981,586	-	-	9,981,586
Student aid	-	2,020,609	-	2,020,609
Endowment	16,444	-	780,210	796,654
Other	213,455	888,413	-	1,101,868
Investment return	8,739,487	2,637,300	-	11,376,787
Auxiliary enterprises	5,339,248	-	-	5,339,248
Change in value of third-party trusts	-	-	5,324,271	5,324,271
Other	1,743,075	24,364	400	1,767,839
Net assets released from restriction	3,150,150	(3,150,150)	-	-
	34,220,675	2,420,536	6,104,881	42,746,092
Expenses and other deductions				
Instructional	21,378,940	-	-	21,378,940
Institutional support	2,825,971	-	-	2,825,971
Student services	1,913,050	-	-	1,913,050
Institutional advancement	1,814,442	-	-	1,814,442
Auxiliary enterprises	6,130,095	-	-	6,130,095
Total operating expenses	34,062,498	-	-	34,062,498
Change in net assets	158,177	2,420,536	6,104,881	8,683,594
Net assets at beginning of the year	91,303,981	15,887,659	72,092,038	179,283,678
Net assets at end of the year	$ 91,462,158	$ 18,308,195	$ 78,196,919	$ 187,967,272

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statement of Activities
For the Year Ended July 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions				
Tuition and fees	$ 8,313,190	$ -	$ -	$ 8,313,190
Scholarships and fellowships	(2,954,254)	-	-	(2,954,254)
Gifts				
Cooperative program	10,002,670	-	-	10,002,670
Student aid	-	2,011,922	-	2,011,922
Endowment	56,504	-	1,246,674	1,303,178
Other	409,946	423,123	-	833,069
Investment return	10,397,616	2,425,409	99,694	12,922,719
Auxiliary enterprises	5,240,786	-	-	5,240,786
Change in value of third-party trusts	-	(439,670)	2,553,841	2,114,171
Other	2,125,149	-	-	2,125,149
Net assets released from restriction	3,779,072	(3,779,072)	-	-
	37,370,679	641,712	3,900,209	41,912,600
Expenses and other deductions				
Instructional	20,812,469	-	-	20,812,469
Institutional support	3,013,296	-	-	3,013,296
Student services	1,850,571	-	-	1,850,571
Institutional advancement	2,238,736	-	-	2,238,736
Auxiliary enterprises	5,928,990	-	-	5,928,990
Total operating expenses	33,844,062	-	-	33,844,062
Change in net assets	3,526,617	641,712	3,900,209	8,068,538
Net assets at beginning of the year	87,777,364	15,245,947	68,191,829	171,215,140
Net assets at end of the year	$ 91,303,981	$ 15,887,659	$ 72,092,038	$ 179,283,678

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Cash Flows
For the Years Ended July 31, 2005 and 2004

	2005	2004
Cash Flows from Operating Activities		
Increase in Net Assets	$ 8,683,594	$ 8,068,538
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	2,138,908	2,360,805
Loss on retirement of assets	(17,435)	87,446
Contributions restricted for endowment and acquisition of long-term assets	(1,668,623)	(1,669,797)
Net unrealized gains on investments	(4,025,038)	(4,668,563)
Net realized gains on investments	(1,633,121)	(2,015,145)
Change in value of third party trusts	(5,324,271)	(2,114,171)
Decrease (increase) in operating assets:		
Receivables	(171,983)	105,333
Pledges receivable	517,136	65,388
Other assets	(36,241)	10,789
Investments held in trust by third parties	443,429	(2,692,313)
Increase (decrease) in operating liabilities:		
Accounts payable	207,824	63,143
Other accrued liabilities	(188,238)	150,170
Deferred income	(69,889)	450,395
Accrued postretirement benefit obligation	1,958,773	2,095,550
Accrued postemployment benefit obligation	33,734	146,957
Net cash provided by operating activities	848,559	444,525
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	717,827	898,037
Purchase of investments	(1,602,066)	(1,354,673)
Proceeds from sales of property, plant and equipment	-	5,690
Purchase of property, plant and equipment	(2,221,054)	(1,443,549)
Net cash utilized by investing activities	(3,105,293)	(1,894,495)
Cash Flows from Financing Activities		
Contributions restricted for endowments and acquisition of long-term assets	1,668,623	1,669,797
Net increase (decrease) in cash and cash equivalents	(588,111)	219,827
Cash and cash equivalents at beginning of year	6,166,528	5,946,701
Cash and cash equivalents at end of year	$ 5,578,417	$ 6,166,528

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2005 and 2004

1 - Nature of Organization

Southwestern Baptist Theological Seminary (the "Seminary") is incorporated under the laws of the State of Texas as a non-profit religious organization. The Seminary's primary activities are to provide theological education for individuals engaging in Christian ministry. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the Southern Baptist Convention ("SBC") and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2 - Summary of Significant Accounting Policies

A summary of the Seminary's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation - The Seminary consolidates the accounts of The Southwestern Baptist Seminary Development Foundation (the "Foundation"), a Texas nonprofit corporation. The Foundation was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. In the event of dissolution of the Foundation, any assets which it may have shall vest in the Seminary. The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting - The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenues and Support - Revenues and support for the Seminary are primarily derived from tuition, fees and contributions from the donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions - The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

2 - Summary of Significant Accounting Policies (continued)

Recognition of Donor Restrictions (continued) - Income and investment gains and losses on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets - Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services - The Seminary receives substantial support in the form of donated services. Contributed services are recognized as unrestricted revenues if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 30, 2005 and 2004.

Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Programs - Southwestern Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional - providing a seminary education for postgraduate degrees in theology, evangelism and missions, church music, and educational ministries.

Institutional support – providing support for the general operations of the Seminary.

Student services - providing placement and employment services to Seminary students.

Institutional advancement - facilitating giving from alumni, corporations and friends of the Seminary.

Auxiliary enterprises - providing housing, dining, recreational and other services to Seminary students.

Cash Equivalents - For purposes of the Statement of Cash Flows, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

Concentration of Credit Risk - Financial instruments that potentially subject the Seminary to credit risk include cash on deposit with a financial institution exceeding $100,000 at various times during the year. The U.S. Federal Deposit Insurance Corporation insures amounts for up to $100,000.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2005 and 2004

2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable - The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of the semester and are stated at amounts due from students net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the semester are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Students whose accounts are not current are not allowed to enroll in classes. Allowance for doubtful accounts for the years ended July 31, 2005 and 2004 was approximately $187,000 and $116,000, respectively.

Investments - Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses of investments are reflected in the statement of activities. Investments received by gift or bequest are recorded at fair value at the date of acquisition. If fair value is not determinable at date of acquisition, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

Investments Held in Trust by Third Parties - The Seminary has split-interest agreements which are irrevocable charitable remainder trusts held by others and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized for the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the statement of activities as a change in value of third-party trusts. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions using a discount rate of 3.8% to 10.6%.

The Seminary is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts (as measured by the fair value of the underlying investments at the Seminary's fiscal year end) are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as endowment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Property Plant, and Equipment - Property, plant and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,000. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	3 - 10 years
Improvements other than buildings	10 years
Library books/microfilm	20 years

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2005 and 2004

2 - Summary of Significant Accounting Policies (continued)

Compensated Absences - Employees of the Seminary are entitled to paid vacation leave depending upon the length of service and other factors. The Seminary's policy is to recognize the cost of compensated absences when earned by employees.

Income Tax Status - The Seminary is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax.

3 - Pledges Receivable

Pledges receivable at July 31, 2005 and 2004 consist of the following unconditional promises to give:

	2005	2004
Capital projects	$ 775,945	$ 815,501
Endowment	306,444	242,515
Scholarships	23,198	11,018
	1,105,587	1,069,034
Less: allowance for uncollectible pledges	(719,122)	(160,355)
	386,465	908,679
Less: unamortized discount (at 2.1% to 5.2%)	(17,047)	(22,125)
Net unconditional promises to give	$ 369,418	$ 886,554

Changes in the Seminary's allowance for doubtful accounts related to pledge receivables are as follows:

	2005	2004
Beginning balance	$ 160,355	$ 332,157
Bad debt provision	558,767	88,065
Accounts written off	-	(259,867)
Ending balance	$ 719,122	$ 160,355

The maturity of pledges is as follows at July 31, 2005:

Less than one year	$ 848,951
One to five years	238,206
More than five years	18,430
Total	$ 1,105,587

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2005 and 2004

4 - Investments

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following at July 31:

	2005	2004
Domestic equity securities	$ 51,068,500	$ 44,912,151
Fixed income	22,147,534	22,314,926
International equity securities	12,440,733	10,543,674
Short-term investments	614,276	2,325,254
Oil and gas interests	1,879,915	1,450,607
Real estate	1,284,056	1,340,550
Other	9,075	14,529
	$ 89,444,089	$ 82,901,691

Certain classifications of investments in 2004 were reclassified to conform to the classifications used in 2005.

The following schedule summarizes investment return for the years ended July 31:

	2005	2004
Dividend and interest income	$ 5,718,628	$ 6,239,011
Net realized gains on investments	1,633,121	2,015,145
Net unrealized gains on investments	4,025,038	4,668,563
	$ 11,376,787	$ 12,922,719

Investment fees are netted against investment return.

5 - Property and Equipment

Property and equipment at July 31, 2005 and 2004 consist of the following:

	2005	2004
Land	$ 2,423,438	$ 2,423,438
Buildings	72,651,342	71,531,526
Equipment	12,144,181	11,015,041
Improvements other than buildings	4,858,380	4,846,366
Library books/microfilm	6,350,119	6,129,913
	98,427,460	95,946,284
Less: accumulated depreciation	(35,350,286)	(32,968,691)
Total	$ 63,077,174	$ 62,977,593

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2005 and 2004

6 - Employee Benefits

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary contributes 10% of the participant's salary to the plan and also matches the participant's contributions up to a maximum of 5% of their salary. The Seminary's contribution for the years ended July 31, 2005 and 2004 was approximately $966,890 and $1,089,000, respectively.

Postretirement and Postemployment Benefits

Although no formal plan exists, the Seminary has a practice of providing postretirement benefits to retired employees. The Seminary does not fund past or future postretirement obligations, and future payments will be dependent upon sufficient funds being available to pay these obligations. Because the Seminary has paid benefits in the past, and intends to pay future benefits, the Seminary accrues the estimated cost of retiree benefits other than pensions during the employee's service period, and the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement.

The following table sets forth the future obligations at July 31:

	2005	2004
Benefit obligation	$ 21,420,268	$ 25,266,879
Fair value of plan assets	-	-
Future obligation	$ 21,420,268	$ 25,266,879
Amount recognized in the statement of financial position as accrued benefit liability	$(21,067,015)	$(19,074,508)
Employer contributions	$ 1,012,019	$ 982,208
Benefits paid	$ 1,012,019	$ 982,208
Net periodic benefit cost	$ 3,004,526	$ 3,224,715
Weighted average assumptions		
Discount rate	5.25%	6.25%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

For measurement purposes, a 9.5% and 10.0% annual rate of increase in the per capital cost of covered health care benefits was assumed for preretirement coverage and 9.5% and 10.0% for postretirement coverage for July 31, 2005 and 2004, respectively. As of July 31, 2005 and 2004, these rates are expected to decrease 0.75% and 0.50%, respectively, every year until they reach a target rate of 5%.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2005 and 2004

6 - Employee Benefits (continued)

The following pension benefit payments are expected to be paid in the following fiscal years:

2005-2006	$ 1,025,347
2006-2007	1,007,268
2007-2008	1,018,459
2008-2009	1,050,672
2009-2010	1,140,081
2010-2015	6,283,174

7 - Net Assets

Unrestricted net assets at July 31, 2005 and 2004 consist of the following:

	2005	2004
For current operations	$ 2,787,601	$ 5,380,868
Designated for specific purposes	8,775,701	13,288,058
Endowment	44,506,176	35,557,834
Invested in property, plant and equipment	56,459,695	56,151,729
Unfunded postretirement and postemployment benefits	(21,067,015)	(19,074,508)
Total	$ 91,462,158	$ 91,303,981

Temporarily restricted net assets consist of the following:

Capital projects	$ 4,733,846	$ 1,718,196
Scholarships	2,268,097	2,042,944
Other	10,833,261	10,374,516
Annuity and life income funds	472,991	1,752,003
Total	$ 18,308,195	$ 15,887,659

Permanently restricted net assets consist of the following:

Loan funds	$ 1,683,134	$ 1,644,237
Annuity and life income funds	4,858,858	5,580,853
Endowment funds	71,654,927	64,866,948
Total	$ 78,196,919	$ 72,092,038

8 - Fund-Raising Activities

Fund-raising expense for the years ended July 31, 2005 and 2004 was approximately $1,217,000 and $1,251,000, respectively. These expenses are included in institutional advancement in the accompanying consolidated statement of activities.

9 - Cooperative Program

The Seminary's primary source of revenue is from the SBC. Churches giving through the cooperative program contribute to the SBC, which passes funds to the Seminary and other institutions. The Seminary received approximately $9,982,000 and $10,003,000 from the SBC for the years ended July 31, 2005 and 2004, respectively.

10 - Lease Commitments

The Seminary has a noncancelable operating lease for copier services expiring November 2010. The Seminary's future minimum lease payments under this lease agreement are as follows for the years ended July 31:

2006	$ 243,600
2007	245,500
2008	247,500
2009	223,500
2010	70,500
Future minimum lease payments	$ 1,030,600

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Financial Statements

July 31, 2006 and 2005

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Financial Statements
July 31, 2006 and 2005

TABLE OF CONTENTS

RATLIFF & SOMMERVILLE, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
Southwestern Baptist Theological Seminary:

We have audited the accompanying consolidated statements of financial position of Southwestern Baptist Theological Seminary (the "Seminary") (a Texas non-profit corporation) as of July 31, 2006 and 2005, 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 audit. The prior year's summarized comparative information has been derived from the Seminary's 2005 financial statements and, in our report dated October 7, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consolidated 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 our audit provides 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 Southwestern Baptist Theological Seminary as of July 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Ratliff & Sommerville, P.C.

October 6, 2006

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SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statement of Financial Position
July 31, 2006 and 2005

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total	2005 Total
Cash and cash equivalents	$ 2,770,832	$ 70,252	$ 17,630	$ 2,858,714	$ 5,578,417
Accounts receivable, net	1,306,650	33,959	145,562	1,486,171	910,769
Other assets	600,605	-		600,605	960,733
Investments					
Endowment funds	35,366,895	-	35,111,220	70,478,115	66,520,142
Other	16,157,308	2,556,032	689,944	19,403,284	22,923,947
	51,524,203	2,556,032	35,801,164	89,881,399	89,444,089
Investments held in trust by third parties					
Endowment funds	-	1,220,626	48,083,395	49,304,021	45,972,140
Annuity funds	-	58,886	4,511,847	4,570,733	5,331,849
		1,279,512	52,595,242	53,874,754	51,303,989
Due from (to) other funds	(7,108,250)	5,728,125	1,380,125	-	-
Property, plant and equipment, net	57,523,563	6,618,987	-	64,142,550	63,077,174
Total assets	$ 106,617,603	$ 16,286,867	$ 89,939,723	$ 212,844,193	$ 211,275,171
LIABILITIES AND NET ASSETS					
Accounts payable	$ 653,239	$ -	$ -	$ 653,239	$ 735,193
Accrued salaries and benefits	170,576	-	-	170,576	533,314
Deposits and agency funds	192,022	-	-	192,022	171,229
Deferred income	535,923	-	-	535,923	801,148
Accrued postretirement benefit obligation	22,133,460	-	-	22,133,460	20,539,425
Accrued postemployment benefit obligation	465,767	-	-	465,767	527,590
Total liabilities	24,150,987	-	-	24,150,987	23,307,899
Net Assets					
Unrestricted	82,466,616	-	-	82,466,616	83,936,358
Temporarily restricted	-	16,286,867	-	16,286,867	18,308,195
Permanently restricted	-	-	89,939,723	89,939,723	85,722,719
Total net assets	82,466,616	16,286,867	89,939,723	188,693,206	187,967,272
Total liabilities and net assets	$ 106,617,603	$ 16,286,867	$ 89,939,723	$ 212,844,193	$ 211,275,171

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statement of Activities
For the Years Ended July 31, 2006 and 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total	2005 Total
Revenues and other additions					
Tuition and fees	$ 8,896,972	$ -	$ -	$ 8,896,972	$ 8,059,203
Scholarships and fellowships	(2,846,261)	-	-	(2,846,261)	(3,021,973)
Gifts					
Cooperative program	9,652,412	-	-	9,652,412	9,981,586
Student aid	-	2,067,721	-	2,067,721	2,020,609
Endowment	-	-	3,169,681	3,169,681	796,654
Other	103,442	1,031,428	-	1,134,870	1,101,868
Investment return	7,597,620	1,361,630	-	8,959,250	11,376,787
Auxiliary enterprises	6,017,994	-	-	6,017,994	5,339,248
Change in value of third-party trusts	-	-	1,046,473	1,046,473	5,324,271
Other	1,805,761	18,965	850	1,825,576	1,767,839
Net assets released from restriction	6,501,072	(6,501,072)	-	-	-
	37,729,012	(2,021,328)	4,217,004	39,924,688	42,746,092
Expenses and other deductions					
Instructional	21,306,363	-	-	21,306,363	21,378,940
Institutional support	7,189,362	-	-	7,189,362	2,825,971
Student services	1,923,926	-	-	1,923,926	1,913,050
Institutional advancement	2,201,926	-	-	2,201,926	1,814,442
Auxiliary enterprises	6,577,177	-	-	6,577,177	6,130,095
Total operating expenses	39,198,754	-	-	39,198,754	34,062,498
Change in net assets	(1,469,742)	(2,021,328)	4,217,004	725,934	8,683,594
Net assets at beginning of the year	83,936,358	18,308,195	85,722,719	187,967,272	179,283,678
Net assets at end of the year	$ 82,466,616	$ 16,286,867	$ 89,939,723	$ 188,693,206	$ 187,967,272

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Cash Flows
For the Years Ended July 31, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities		
Increase in Net Assets	$ 725,934	$ 8,683,594
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	2,487,764	2,138,908
Loss (gain) on retirement of assets	277,189	(17,435)
Contributions restricted for endowment and acquisition of long-term assets	(3,890,295)	(1,668,623)
Net unrealized gains on investments	(2,069,427)	(4,025,038)
Net realized gains on investments	(1,267,706)	(1,633,121)
Change in value of third party trusts	(1,046,473)	(5,324,271)
Decrease (increase) in operating assets:		
Receivables	(575,402)	(171,983)
Pledge receivables	369,418	517,136
Other assets	(9,290)	(36,241)
Investments held in trust by third parties	(1,524,292)	443,429
Increase (decrease) in operating liabilities:		
Accounts payable	(81,954)	207,824
Other accrued liabilities	(362,738)	(188,238)
Deferred income	(244,432)	(69,889)
Accrued postretirement benefit obligation	1,594,035	1,958,773
Accrued postemployment benefit obligation	(61,823)	33,734
Net cash provided (utilized) by operating activities	(5,679,492)	848,559
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	3,595,454	717,827
Purchase of investments	(695,631)	(1,602,066)
Purchase of property, plant and equipment	(3,830,329)	(2,221,054)
Net cash utilized by investing activities	(930,506)	(3,105,293)
Cash Flows from Financing Activities		
Contributions restricted for endowments and acquisition of long-term assets	3,890,295	1,668,623
Net decrease in cash and cash equivalents	(2,719,703)	(588,111)
Cash and cash equivalents at beginning of year	5,578,417	6,166,528
Cash and cash equivalents at end of year	$ 2,858,714	$ 5,578,417

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2006 and 2005

1 - Nature of Organization

Southwestern Baptist Theological Seminary (the "Seminary") is incorporated under the laws of the State of Texas as a non-profit religious organization. The Seminary's primary activities are to provide theological education for individuals engaging in Christian ministry. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the Southern Baptist Convention ("SBC") and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2 - Summary of Significant Accounting Policies

A summary of the Seminary's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation - The Seminary consolidates the accounts of The Southwestern Baptist Seminary Development Foundation (the "Foundation"), a Texas non-profit corporation. The Foundation was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. In the event of dissolution of the Foundation, any assets which it may have shall vest in the Seminary. The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting - The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenues and Support - Revenues and support for the Seminary are primarily derived from tuition, fees and contributions from the donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions - The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

2 - Summary of Significant Accounting Policies (continued)

Recognition of Donor Restrictions (continued) - Income and investment gains and losses on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets - Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services - The Seminary receives substantial support in the form of donated services. Contributed services are recognized as unrestricted revenues if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 30, 2006 and 2005.

Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Programs - Southwestern Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional - providing a seminary education for postgraduate degrees in theology, evangelism and missions, church music, and educational ministries.

Institutional support - providing support for the general operations of the Seminary.

Student services - providing placement and employment services to Seminary students.

Institutional advancement - facilitating giving from alumni, corporations and friends of the Seminary.

Auxiliary enterprises - providing housing, dining, recreational and other services to Seminary students.

Cash Equivalents - For purposes of the Statement of Cash Flows, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

Concentration of Credit Risk - Financial instruments that potentially subject the Seminary to credit risk include cash on deposit with a financial institution exceeding $100,000 at various times during the year. The U.S. Federal Deposit Insurance Corporation insures amounts for up to $100,000.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2006 and 2005

2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable - The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of the semester and are stated at amounts due from students net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the semester are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Students whose accounts are not current are not allowed to enroll in classes. Allowance for doubtful accounts for the years ended July 31, 2006 and 2005 was approximately $403,888 and $187,000, respectively.

Investments - Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses of investments are reflected in the statement of activities. Investments received by gift or bequest are recorded at fair value at the date of acquisition. If fair value is not determinable at date of acquisition, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

Investments Held in Trust by Third Parties - The Seminary has split-interest agreements which are irrevocable charitable remainder trusts held by others and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized for the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the statement of activities as a change in value of third-party trusts. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions using a discount rate of 3.8% to 10.6%.

The Seminary is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts (as measured by the fair value of the underlying investments at the Seminary's fiscal year end) are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as endowment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Property Plant and Equipment - Property, plant and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,000. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	3 - 10 years
Improvements other than buildings	10 years
Library books/microfilm	20 years

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

2 - Summary of Significant Accounting Policies (continued)

Pledge Receivables - The Seminary records pledge receivables when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Pledge receivables are evaluated annually as to collectibility and reserves for doubtful pledges are provided for estimated uncollectible accounts. Pledge receivables are written off when determined to be uncollectible.

Compensated Absences - Employees of the Seminary are entitled to paid vacation leave depending upon the length of service and other factors. The Seminary's policy is to recognize the cost of compensated absences when earned by employees.

Income Tax Status - The Seminary is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax.

3 - Pledge Receivables

Pledge receivables are included in Other Assets in the Statement of Financial Position at July 31, 2005. There were no balances of pledge receivables at July 31, 2006. Pledge receivables at July 31, 2005 consist of the following unconditional promises to give:

	2005
Capital projects	$ 775,945
Endowment	306,444
Scholarships	23,198
	1,105,587
Less: allowance for uncollectible pledges	(719,122)
	386,465
Less: unamortized discount (at 2.1% to 5.2%)	(17,047)
Net unconditional promises to give	$ 369,418

Changes in the Seminary's allowance for doubtful accounts related to pledge receivables are as follows:

	2006	2005
Beginning balance	$ 719,122	$ 160,355
Bad debt provision	-	558,767
Accounts written off	(719,122)	-
Ending balance	$ -	$ 719,122

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2006 and 2005

4 - Investments

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following at July 31:

	2006	2005
Domestic equity securities	$ 49,285,222	$ 51,068,500
Fixed income	21,509,275	22,147,534
International equity securities	13,797,896	12,440,733
Short-term investments	1,303,394	614,276
Oil and gas interests	2,298,166	1,879,915
Real estate	1,455,481	1,284,056
Other	231,965	9,075
	$ 89,881,399	$ 89,444,089

The following schedule summarizes investment return for the years ended July 31:

	2006	2005
Dividend and interest income	$ 5,622,117	$ 5,718,628
Net realized gains on investments	1,267,706	1,633,121
Net unrealized gains on investments	2,069,427	4,025,038
	$ 8,959,250	$ 11,376,787

Investment fees are netted against investment return.

5 - Property and Equipment

Property and equipment at July 31, 2006 and 2005 consist of the following:

	2006	2005
Land	$ 2,423,438	$ 2,423,438
Buildings	75,041,047	72,651,342
Equipment	12,019,025	12,144,181
Improvements other than buildings	5,011,521	4,858,380
Library books/microfilm	6,567,945	6,350,119
	101,062,976	98,427,460
Less: accumulated depreciation	(36,920,426)	(35,350,286)
Total	$ 64,142,550	$ 63,077,174

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2006 and 2005

6 - Employee Benefits

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary contributes 10% of the participant's salary to the plan and also matches the participant's contributions up to a maximum of 5% of their salary. The Seminary's contribution for the years ended July 31, 2006 and 2005 was approximately $734,735 and $967,000, respectively.

Postretirement and Postemployment Benefits

Although no formal plan exists, the Seminary has a practice of providing postretirement benefits to retired employees. The Seminary does not fund past or future postretirement obligations, and future payments will be dependent upon sufficient funds being available to pay these obligations. Because the Seminary has paid benefits in the past, and intends to pay future benefits, the Seminary accrues the estimated cost of retiree benefits other than pensions during the employee's service period, and the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement.

The following table sets forth the future obligations at July 31:

	2006	2005
Benefit obligation	$ 18,133,826	$ 21,420,268
Fair value of plan assets	-	-
Future obligation	$ 18,133,826	$ 21,420,268
Amount recognized in the statement of financial position as accrued benefit liability	$(22,599,227)	$(21,067,015)
Employer contributions	$ 734,735	$ 1,012,019
Benefits paid	$ 734,735	$ 1,012,019
Net periodic benefit cost	$ 3,004,526	$ 3,004,526
Weighted average assumptions		
Discount rate	6.25%	5.25%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

For measurement purposes, a 9.5% and 9.5% annual rate of increase in the per capital cost of covered health care benefits was assumed for preretirement coverage and 9.5% and 9.5% for postretirement coverage for July 31, 2006 and 2005, respectively. As of July 31, 2006 and 2005, these rates are expected to decrease 0.75% and 0.50%, respectively, every year until they reach a target rate of 5%.

6 - Employee Benefits (continued)

The following pension benefit payments are expected to be paid in the following fiscal years:

2006-2007	$ 861,811
2007-2008	926,878
2008-2009	965,562
2009-2010	1,045,560
2010-2011	1,122,175
2011-2016	6,431,499

7 - Net Assets

Unrestricted net assets at July 31, 2006 and 2005 consist of the following:

	2006	2005
For current operations	$ 3,365,663	$ 2,787,601
Designated for specific purposes	8,809,723	8,775,701
Endowment	35,366,894	36,980,376
Invested in property, plant and equipment	57,523,563	56,459,695
Unfunded postretirement and postemployment benefits	(22,599,227)	(21,067,015)
Total	$ 82,466,616	$ 83,936,358

Temporarily restricted net assets consist of the following:

	2006	2005
Capital projects	$ 2,031,718	$ 4,733,846
Scholarships	2,757,214	2,268,097
Other	11,439,049	10,833,261
Annuity and life income funds	58,886	472,991
Total	$ 16,286,867	$ 18,308,195

Permanently restricted net assets consist of the following:

	2006	2005
Loan funds	$ 1,793,304	$ 1,683,134
Annuity and life income funds	4,812,380	4,858,858
Endowment funds	83,334,039	79,180,727
Total	$ 89,939,723	$ 85,722,719

8 - Fund raising Activities

Fund raising expense for the years ended July 31, 2006 and 2005 was approximately $1,321,000 and $1,217,000, respectively. These expenses are included in institutional advancement in the accompanying consolidated statement of activities.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2006 and 2005

9 - Cooperative Program

The Seminary's primary source of revenue is from the SBC. Churches giving through the cooperative program contribute to the SBC, which passes funds to the Seminary and other institutions. The Seminary received approximately $9,652,000 and $9,982,000 from the SBC for the years ended July 31, 2006 and 2005, respectively.

10 - Lease Commitments

The Seminary has a noncancelable operating lease for copier services expiring November 2010. Lease expense was $243,600 and $235,000 for the years ended July 31, 2006 and 2005, respectively. The Seminary's future minimum lease payments under this lease agreement are as follows for the years ended July 31:

2007	$ 245,500
2008	245,500
2009	223,500
2010	70,500
Future minimum lease payments	$ 785,000

11 - Prior Period Reclassification

During fiscal year 2006, management identified certain accounts previously classified as unrestricted that were permanently restricted. The reclassifications had no impact on reported revenues and expenses for the years ended 2006 and 2005. Accordingly, the following reclassification was made to net assets as of August 1, 2005:

	Unrestricted	Temporarily restricted	Permanently restricted
Net assets at August 1, 2005	$ 91,462,158	$ 18,308,195	$ 78,196,919
Prior period reclassifications	(7,525,800)	-	7,525,800
Net assets at August 1, 2005, reclassified	$ 83,936,358	$ 18,308,195	$ 85,722,719

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Financial Statements

July 31, 2007 and 2006

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Financial Statements
July 31, 2007 and 2006

TABLE OF CONTENTS

RATLIFF & SOMMERVILLE, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
Southwestern Baptist Theological Seminary:

We have audited the accompanying consolidated statements of financial position of Southwestern Baptist Theological Seminary (the "Seminary") (a Texas not-for-profit corporation) as of July 31, 2007 and 2006, 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 audit. The prior year's summarized comparative information has been derived from the Seminary's 2006 financial statements and, in our report dated October 6, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consolidated 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 our audit provides 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 Southwestern Baptist Theological Seminary as of July 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Ratliff & Sommerville, P.C.

October 5, 2007

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SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statement of Financial Position
July 31, 2007 and 2006

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
Cash and cash equivalents	$ 5,702,970	$ 592,028	$ -	$ 6,294,998	$ 2,858,714
Accounts receivable, net	2,895,573	33,961	143,715	3,073,249	1,486,171
Unconditional promises to give, net	8,169	12,342,043	-	12,350,212	-
Other assets	817,996	-	-	817,996	600,605
Investments					
Endowment funds	36,749,035	-	37,477,797	74,226,832	70,478,115
Other	17,080,333	5,272,231	726,306	23,078,870	19,403,284
	53,829,368	5,272,231	38,204,103	97,305,702	89,881,399
Investments held in trust by third parties					
Endowment funds	-	967,489	53,000,778	53,968,267	49,304,021
Annuity funds	-	58,886	5,345,867	5,404,753	4,570,733
		1,026,375	58,346,645	59,373,020	53,874,754
Due from (to) other funds	(8,241,166)	6,861,041	1,380,125	-	-
Property, plant and equipment, net	56,555,868	6,787,246	-	63,343,114	64,142,550
Total assets	$ 111,568,778	$ 32,914,925	$ 98,074,588	$ 242,558,291	$ 212,844,193
LIABILITIES AND NET ASSETS					
Accounts payable	$ 574,133	$ -	$ -	$ 574,133	$ 653,239
Accrued salaries and benefits	358,314	-	-	358,314	170,576
Deposits and agency funds	226,879	-	-	226,879	192,022
Deferred income	747,772	-	-	747,772	535,923
Accrued postretirement benefit obligation	17,984,441	-	-	17,984,441	22,133,460
Accrued post employment benefit obligation	261,842	-	-	261,842	465,767
Total liabilities	20,153,381	-	-	20,153,381	24,150,987
Net Assets					
Unrestricted	91,415,397	-	-	91,415,397	82,466,616
Temporarily restricted	-	32,914,925	-	32,914,925	16,286,867
Permanently restricted	-	-	98,074,588	98,074,588	89,939,723
Total net assets	91,415,397	32,914,925	98,074,588	222,404,910	188,693,206
Total liabilities and net assets	$ 111,568,778	$ 32,914,925	$ 98,074,588	$ 242,558,291	$ 212,844,193

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Activities
For the Years Ended July 31, 2007 and 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
Revenues and other additions					
Tuition and fees	$ 9,509,028	$ -	$ -	$ 9,509,028	$ 8,896,972
Scholarships and fellowships	(2,894,163)	-	-	(2,894,163)	(2,846,261)
Gifts					
Cooperative program	10,180,193	-	-	10,180,193	9,652,412
Student aid	-	2,379,753	-	2,379,753	2,067,721
Endowment	-	-	2,514,928	2,514,928	3,169,681
Other	580,557	16,232,335	-	16,812,892	1,134,870
Investment return	14,256,678	2,080,214	28,703	16,365,595	8,959,250
Auxiliary enterprises	6,291,650	-	-	6,291,650	6,017,994
Change in value of third-party trusts	-	-	5,590,434	5,590,434	1,046,473
Change in accounting for postretirement and post employment benefits (see note)	5,294,195	-	-	5,294,195	-
Other	3,449,322	3,530	800	3,453,652	1,825,576
Net assets released from restriction	4,067,774	(4,067,774)	-	-	-
	50,735,234	16,628,058	8,134,865	75,498,157	39,924,688
Expenses and other deductions					
Instructional	21,706,556	-	-	21,706,556	21,306,363
Institutional support	8,290,619	-	-	8,290,619	7,189,362
Student services	2,004,655	-	-	2,004,655	1,923,926
Institutional advancement	2,577,442	-	-	2,577,442	2,201,926
Auxiliary enterprises	7,207,181	-	-	7,207,181	6,577,177
Total operating expenses	41,786,453	-	-	41,786,453	39,198,754
Change in net assets	8,948,781	16,628,058	8,134,865	33,711,704	725,934
Net assets at beginning of the year	82,466,616	16,286,867	89,939,723	188,693,206	187,967,272
Net assets at end of the year	$ 91,415,397	$ 32,914,925	$ 98,074,588	$ 222,404,910	$ 188,693,206

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows
For the Years Ended July 31, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities		
Increase in Net Assets	$ 33,711,704	$ 725,934
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	2,584,120	2,487,764
Loss (gain) on retirement of assets	141,987	277,189
Contributions restricted for endowment and acquisition of long-term assets	(6,426,554)	(3,890,295)
Net unrealized losses on investments	(19,856,310)	(2,069,427)
Net realized gains (losses) on investments	27,709,254	(1,267,706)
Change in value of third party trusts	(5,590,434)	(1,046,473)
Decrease (increase) in operating assets:		
Receivables	(1,587,078)	(575,402)
Unconditional promises to give	(12,350,212)	369,418
Other assets	(217,391)	(9,290)
Investments held in trust by third parties	92,168	(1,524,292)
Increase (decrease) in operating liabilities:		
Accounts payable	(79,106)	(81,954)
Other accrued liabilities	187,738	(362,738)
Deferred income	246,706	(244,432)
Accrued postretirement benefit obligation	(4,149,019)	1,594,035
Accrued post employment benefit obligation	(203,925)	(61,823)
Net cash provided (utilized) by operating activities	14,213,648	(5,679,492)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	21,558,625	3,595,454
Purchase of investments	(36,835,872)	(695,631)
Purchase of property, plant and equipment	(1,926,671)	(3,830,329)
Net cash utilized by investing activities	(17,203,918)	(930,506)
Cash Flows from Financing Activities		
Contributions restricted for endowments and acquisition of long-term assets	6,426,554	3,890,295
Net increase (decrease) in cash and cash equivalents	3,436,284	(2,719,703)
Cash and cash equivalents at beginning of year	2,858,714	5,578,417
Cash and cash equivalents at end of year	$ 6,294,998	$ 2,858,714

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2007 and 2006

1 - Nature of Organization

Southwestern Baptist Theological Seminary (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Seminary's primary activities are to provide theological education for individuals engaging in Christian ministry. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the Southern Baptist Convention ("SBC") and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2 - Summary of Significant Accounting Policies

A summary of the Seminary's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation - The Seminary consolidates the accounts of The Southwestern Baptist Seminary Development Foundation (the "Foundation"), a Texas non-profit corporation. The Foundation was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. In the event of dissolution of the Foundation, any assets which it may have shall vest in the Seminary. The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting - The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenues and Support - Revenues and support for the Seminary are primarily derived from tuition, fees and contributions from the donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions - The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2007 and 2006

2 - Summary of Significant Accounting Policies (continued)

Recognition of Donor Restrictions (continued) - Income and investment gains and losses on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets - Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services - The Seminary receives substantial support in the form of donated services. Contributed services are recognized as unrestricted revenues if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 30, 2007 and 2006.

Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Programs - Southwestern Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional - providing a seminary education for postgraduate degrees in theology, evangelism and missions, church music, and educational ministries.

Institutional support - providing support for the general operations of the Seminary.

Student services - providing placement and employment services to Seminary students.

Institutional advancement - facilitating giving from alumni, corporations and friends of the Seminary.

Auxiliary enterprises - providing housing, dining, recreational and other services to Seminary students.

Cash Equivalents - For purposes of the Statement of Cash Flows, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

Concentration of Credit Risk - Financial instruments that potentially subject the Seminary to credit risk include cash on deposit with a financial institution exceeding $100,000 at various times during the year. The U.S. Federal Deposit Insurance Corporation insures amounts for up to $100,000.

2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable - The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of the semester and are stated at amounts due from students net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the semester are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Students whose accounts are not current are not allowed to enroll in classes. Allowance for doubtful accounts for the years ended July 31, 2007 and 2006 was approximately $409,590 and $403,888, respectively.

Investments - Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses of investments are reflected in the statement of activities. Investments received by gift or bequest are recorded at fair value at the date of acquisition. If fair value is not determinable at date of acquisition, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

Investments Held in Trust by Third Parties - The Seminary has split-interest agreements which are irrevocable charitable remainder trusts held by others and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized for the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the statement of activities as a change in value of third-party trusts. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions using a discount rate of 3.8% to 10.6%.

The Seminary is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts (as measured by the fair value of the underlying investments at the Seminary's fiscal year end) are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as endowment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Property Plant and Equipment - Property, plant and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,000. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	3 - 10 years
Improvements other than buildings	10 years
Library books/microfilm	20 years

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

2 - Summary of Significant Accounting Policies (continued)

Unconditional Promises to Give - The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectibility and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Compensated Absences - Employees of the Seminary are entitled to paid vacation leave depending upon the length of service and other factors. The Seminary's policy is to recognize the cost of compensated absences when earned by employees.

Income Tax Status - The Seminary is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax.

3 - Unconditional Promises to Give

Unconditional promises to give at July 31, 2007 are restricted for capital expenditures. Scheduled maturities of unconditional promises to give are as follows:

Less than one year	$ 3,776,269
One to five years	9,800,000
	13,576,269
Less: unamortized discount at 4.0%	(1,226,057)
Net unconditional promises to give	$ 12,350,212

The Seminary evaluates the collectability of promises to give and no allowance for doubtful accounts was considered necessary at July 31, 2007.

4 - Fund-Raising Activities

Fund-raising expense for the years ended July 31, 2007 and 2006 was approximately $1,624,000 and $1,321,000, respectively. These expenses are included in institutional advancement in the accompanying consolidated statement of activities.

5 - Cooperative Program

The Seminary's primary source of revenue is from the SBC. Churches giving through the cooperative program contribute to the SBC, which passes funds to the Seminary and other institutions. The Seminary received approximately $10,180,000 and $9,652,000 from the SBC for the years ended July 31, 2007 and 2006, respectively.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2007 and 2006

6 - Investments

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following at July 31:

	2007	2006
Domestic equity securities	$ 44,963,298	$ 49,285,222
Fixed income	22,120,243	21,509,275
International equity securities	22,383,565	13,797,896
Short-term investments	3,432,170	1,303,394
Oil and gas interests	1,503,937	2,298,166
Real estate	2,626,385	1,455,481
Other	276,104	231,965
	$ 97,305,702	$ 89,881,399

The following schedule summarizes investment return for the years ended July 31:

	2007	2006
Dividend and interest income	$ 8,512,651	$ 5,622,117
Net realized gains on investments	27,709,254	1,267,706
Net unrealized gains on investments	(19,856,310)	2,069,427
	$ 16,365,595	$ 8,959,250

Investment fees are netted against investment return.

7 - Property and Equipment

Property and equipment at July 31, 2007 and 2006 consist of the following:

	2007	2006
Land	$ 2,455,712	$ 2,423,438
Buildings	75,751,705	75,041,047
Equipment	12,534,785	12,019,025
Improvements other than buildings	5,307,536	5,011,521
Library books/microfilm	6,727,148	6,567,945
	102,776,886	101,062,976
Less: accumulated depreciation	(39,433,772)	(36,920,426)
Total	$ 63,343,114	$ 64,142,550

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2007 and 2006

8 - Employee Benefits

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary contributes 10% of the participant's salary to the plan and also matches the participant's contributions up to a maximum of 5% of their salary. The Seminary's contribution for the years ended July 31, 2007 and 2006 was approximately $890,101 and $776,322, respectively.

Postretirement and Postemployment Benefits

Although no formal plan exists, the Seminary adopted a practice of providing postretirement benefits to retired employees. The Seminary does not fund past or future postretirement obligations, and future payments will be dependent upon sufficient funds being available to pay these obligations. Because the Seminary has paid benefits in the past, and intends to pay future benefits, the Seminary accrues the estimated cost of retiree benefits other than pensions during the employee's service period, and the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement.

During the fiscal year ended July 31, 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 which modified the recognition requirement for postretirement and postemployment benefits. The Seminary is now required to recognize the funded status of a defined benefit postretirement and postemployment plan which results in a liability at July 31, 2007 of $5,294,195 less than the liability that would have been recognized under the prior rules. The adjustment is reported in the 2007 Statement of Activities.

The following table sets forth the future obligations at July 31:

	2007	2006
Accumulated benefit costs	$ 18,246,283	$ 18,133,826
Unrecognized prior service cost and gains or losses	5,294,195	4,465,401
Accrued benefit obligation	$ 23,540,478	$ 22,599,227
Amount recognized in the statement of financial position as accrued benefit liability	$ (18,246,283)	$ (22,599,227)
Employer contributions	$ 890,101	$ 776,322
Benefits paid	$ 890,101	$ 776,322
Net periodic benefit cost	$ 2,186,270	$ 2,308,534
Weighted average assumptions		
Discount rate	6.25%	6.25%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2007 and 2006

8 - Employee Benefits (continued)

For measurement purposes, a 9.5% and 9.5% annual rate of increase in the per capital cost of covered health care benefits was assumed for preretirement coverage and 9.5% and 9.5% for postretirement coverage for July 31, 2007 and 2006, respectively. As of July 31, 2007 and 2006, these rates are expected to decrease 0.50% and 0.50%, respectively, every year until they reach a target rate of 5%.

The following pension benefit payments are expected to be paid in the following fiscal years:

2007-2008	$ 884,319
2008-2009	918,793
2009-2010	997,509
2010-2011	1,059,654
2011-2012	1,111,781
2012-2017	6,720,437

9 - Net Assets

Unrestricted net assets at July 31, 2007 and 2006 consist of the following:

	2007	2006
For current operations	$ 3,083,080	$ 3,365,663
Designated for specific purposes	8,201,262	8,809,723
Endowment	41,821,469	35,366,894
Invested in property, plant and equipment	56,555,869	57,523,563
Unfunded postretirement and postemployment benefits	(18,246,283)	(22,599,227)
Total	$ 91,415,397	$ 82,466,616

Temporarily restricted net assets consist of the following:

Capital projects	$ 16,742,639	$ 2,031,718
Scholarships	3,615,323	2,757,214
Other	12,498,077	11,439,049
Annuity and life income funds	58,886	58,886
Total	$ 32,914,925	$ 16,286,867

Permanently restricted net assets consist of the following:

Loan funds	$ 1,822,807	$ 1,793,304
Annuity and life income funds	5,392,834	4,812,380
Endowment funds	90,858,947	83,334,039
Total	$ 98,074,588	$ 89,939,723

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2007 and 2006

10 - Lease Commitments

The Seminary has a noncancelable operating lease for copier services expiring November 2010. Lease expense was $243,600 and $243,000 for the years ended July 31, 2007 and 2006, respectively. The Seminary's future minimum lease payments under this lease agreement are as follows for the years ended July 31:

2007	$ 245,500
2008	245,500
2009	223,500
2010	70,500
Future minimum lease payments	$ 785,000

11 - Other Commitments

The Seminary has entered into contracts totaling $3,012,699 for design services relating to future construction of the Roy Fish School of Evangelism and Missions Building and a new chapel.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Financial Statements

July 31, 2008 and 2007

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Financial Statements
July 31, 2008 and 2007

TABLE OF CONTENTS

RATLIFF & SOMMERVILLE, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
Southwestern Baptist Theological Seminary:

We have audited the accompanying consolidated statements of financial position of Southwestern Baptist Theological Seminary (the "Seminary") (a Texas not-for-profit corporation) as of July 31, 2008 and 2007, 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 audit. The prior year's summarized comparative information has been derived from the Seminary's 2007 financial statements and, in our report dated October 5, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consolidated 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 our audit provides 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 Southwestern Baptist Theological Seminary as of July 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Ratliff & Sommerville, P.C.

October 13, 2008

3030 Matlock Road, Suite 201 • Arlington, TX 76015 • www.rscpas.com
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SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statement of Financial Position
July 31, 2008 and 2007

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Cash and cash equivalents	$ 5,278,052	$ 3,228,764	$ -	$ 8,506,816	$ 6,294,998
Accounts receivable, net	1,837,692	33,960	129,392	2,001,044	3,073,249
Unconditional promises to give, net	-	10,055,692	-	10,055,692	12,350,212
Other assets	541,245	-	-	541,245	817,996
Investments					
Endowment funds	36,414,188	-	40,436,776	76,850,964	74,226,832
Other	8,546,341	8,528,050	-	17,074,391	23,078,870
	44,960,529	8,528,050	40,436,776	93,925,355	97,305,702
Investments held in trust by third parties					
Endowment funds	-	1,156,136	52,990,265	54,146,401	53,968,267
Annuity funds	-	-	4,649,673	4,649,673	5,404,753
		1,156,136	57,639,938	58,796,074	59,373,020
Due from (to) other funds	(7,724,123)	6,291,766	1,432,357	-	-
Property, plant and equipment, net	55,824,732	6,611,424	-	62,436,156	63,343,114
Total assets	$ 100,718,127	$ 35,905,792	$ 99,638,463	$ 236,262,382	$ 242,558,291

LIABILITIES AND NET ASSETS					
Accounts payable	$ 244,378	$ -	$ -	$ 244,378	$ 574,133
Accrued salaries and benefits	351,514	-	-	351,514	358,314
Deposits and agency funds	125,749	-	-	125,749	226,879
Deferred income	1,128,371	-	-	1,128,371	747,772
Accrued postretirement benefit obligation	16,935,898	-	-	16,935,898	17,984,441
Accrued postemployment benefit obligation	237,983	-	-	237,983	261,842
Total liabilities	19,023,893	-	-	19,023,893	20,153,381
Net Assets					
Unrestricted	81,694,234			81,694,234	91,415,397
Temporarily restricted	-	35,905,792		35,905,792	32,914,925
Permanently restricted	-	-	99,638,463	99,638,463	98,074,588
Total net assets	81,694,234	35,905,792	99,638,463	217,238,489	222,404,910
Total liabilities and net assets	$ 100,718,127	$ 35,905,792	$ 99,638,463	$ 236,262,382	$ 242,558,291

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Activities
For the Years Ended July 31, 2008 and 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Revenues and other additions					
Tuition and fees	$ 10,117,422	$ -	$ -	$ 10,117,422	$ 9,509,028
Scholarships and fellowships	(3,199,417)	-	-	(3,199,417)	(2,894,163)
Gifts					
Cooperative program	10,162,667	-	-	10,162,667	10,180,193
Student aid	-	2,682,254	-	2,682,254	2,379,753
Endowment	-	-	4,343,750	4,343,750	2,514,928
Other	475,909	3,712,924	-	4,188,833	16,812,892
Investment return	(373,819)	1,865,781	20,968	1,512,930	16,365,595
Auxiliary enterprises	6,818,439	-	-	6,818,439	6,291,650
Change in value of third-party trusts	-	-	(2,801,193)	(2,801,193)	5,590,434
Change in accounting for postretirement and postemployment benefits (see note)	-	-	-	-	5,294,195
Other	2,270,250	21,631	350	2,292,231	3,453,652
Net assets released from restriction	5,291,723	(5,291,723)	-	-	-
	31,563,174	2,990,867	1,563,875	36,117,916	75,498,157
Expenses and other deductions					
Instructional	20,763,949	-	-	20,763,949	21,706,556
Institutional support	8,250,513	-	-	8,250,513	8,290,619
Student services	1,656,951	-	-	1,656,951	2,004,655
Institutional advancement	2,852,098	-	-	2,852,098	2,577,442
Auxiliary enterprises	7,760,826	-	-	7,760,826	7,207,181
Total operating expenses	41,284,337	-	-	41,284,337	41,786,453
Change in net assets	(9,721,163)	2,990,867	1,563,875	(5,166,421)	33,711,704
Net assets at beginning of the year	91,415,397	32,914,925	98,074,588	222,404,910	188,693,206
Net assets at end of the year	$ 81,694,234	$ 35,905,792	$ 99,638,463	$ 217,238,489	$ 222,404,910

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Cash Flows
For the Years Ended July 31, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets	$ (5,166,421)	$ 33,711,704
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	2,705,396	2,584,120
Loss on retirement of assets	-	141,987
Contributions restricted for endowment and acquisition of long-term assets	(7,077,992)	(6,426,554)
Net unrealized losses on investments	(5,865,271)	(19,856,310)
Net realized gains on investments	520,232	27,709,254
Change in value of third party trusts	2,801,193	(5,590,434)
Decrease (increase) in operating assets:		
Receivables	1,072,205	(1,587,078)
Unconditional promises to give	2,294,520	(12,350,212)
Other assets	276,751	(217,391)
Investments held in trust by third parties	-	92,168
Increase (decrease) in operating liabilities:		
Accounts payable	(329,755)	(79,106)
Other accrued liabilities	(107,930)	187,738
Deferred income	380,599	246,706
Accrued postretirement benefit obligation	(1,048,543)	(4,149,019)
Accrued postemployment benefit obligation	(23,859)	(203,925)
Net cash provided (utilized) by operating activities	(9,568,875)	14,213,648
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	13,352,008	21,558,625
Purchase of investments	(6,850,869)	(36,835,872)
Purchase of property, plant and equipment	(1,798,438)	(1,926,671)
Net cash (provided) utilized by investing activities	4,702,701	(17,203,918)
Cash Flows from Financing Activities		
Contributions restricted for endowments and acquisition of long-term assets	7,077,992	6,426,554
Net increase in cash and cash equivalents	2,211,818	3,436,284
Cash and cash equivalents at beginning of year	6,294,998	2,858,714
Cash and cash equivalents at end of year	$ 8,506,816	$ 6,294,998

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2008 and 2007

1 - Nature of Organization

Southwestern Baptist Theological Seminary (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Seminary's primary activities are to provide theological education for individuals engaging in Christian ministry. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the Southern Baptist Convention ("SBC") and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2 - Summary of Significant Accounting Policies

A summary of the Seminary's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation - The Seminary consolidates the accounts of The Southwestern Baptist Seminary Development Foundation (the "Development"), a Texas non-profit corporation and Southwestern Seminary Foundation (the "Foundation"). The Development was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. The Foundation was formed in 2005 and became active in 2008. The Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and management the Seminary's investment portfolio. The Development and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of Development and Foundation, any assets which they may have shall vest in the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting - The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenues and Support - Revenues and support for the Seminary are primarily derived from tuition, fees and contributions from the donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions - The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2008 and 2007

2 - Summary of Significant Accounting Policies (continued)

Recognition of Donor Restrictions (continued) - Income and investment gains and losses on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets - Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services - The Seminary receives substantial support in the form of donated services. Contributed services are recognized as unrestricted revenues if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 30, 2008 and 2007.

Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Programs - Southwestern Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional - providing a seminary education for postgraduate degrees in theology, evangelism and missions, church music, and educational ministries.

Institutional support - providing support for the general operations of the Seminary.

Student services - providing placement and employment services to Seminary students.

Institutional advancement - facilitating giving from alumni, corporations and friends of the Seminary.

Auxiliary enterprises - providing housing, dining, recreational and other services to Seminary students.

Cash Equivalents - For purposes of the Statement of Cash Flows, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

Concentration of Credit Risk - Financial instruments that potentially subject the Seminary to credit risk include cash on deposit with a financial institution exceeding $100,000 at various times during the year. The U.S. Federal Deposit Insurance Corporation insures amounts for up to $100,000.

2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable - The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of the semester and are stated at amounts due from students net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the semester are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Students whose accounts are not current are not allowed to enroll in classes. Allowance for doubtful accounts for the years ended July 31, 2008 and 2007 was approximately $409,590 and $403,888, respectively.

Investments - Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses of investments are reflected in the statement of activities. Investments received by gift or bequest are recorded at fair value at the date of acquisition. If fair value is not determinable at date of acquisition, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

Investments Held in Trust by Third Parties - The Seminary has split-interest agreements which are irrevocable charitable remainder trusts held by others and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized for the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the statement of activities as a change in value of third-party trusts. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions using a discount rate of 3.8% to 10.6%.

The Seminary is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts (as measured by the fair value of the underlying investments at the Seminary's fiscal year end) are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as endowment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Property Plant and Equipment - Property, plant and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,000. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	3 - 10 years
Improvements other than buildings	10 years
Library books/microfilm	20 years

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2008 and 2007

2 - Summary of Significant Accounting Policies (continued)

Unconditional Promises to Give - The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectibility and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Compensated Absences - Employees of the Seminary are entitled to paid vacation leave depending upon the length of service and other factors. The Seminary's policy is to recognize the cost of compensated absences when earned by employees.

Income Tax Status - The Seminary is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax.

3 - Unconditional Promises to Give

Unconditional promises to give at July 31, 2008 and 2007 are restricted for capital expenditures. Scheduled maturities of unconditional promises to give are as follows:

	2008	2007
Less than one year	$ 4,133,333	$ 3,776,269
One to five years	6,691,427	9,800,000
	10,824,760	13,576,269
Less: unamortized discount at 4.0%	(769,068)	(1,226,057)
Net unconditional promises to give	$ 10,055,692	$ 12,350,212

The Seminary evaluates the collectability of promises to give and no allowance for doubtful accounts was considered necessary at July 31, 2008 or 2007.

4 - Fund-Raising Activities

Fund-raising expense for the years ended July 31, 2008 and 2007 was approximately $1,468,000 and $1,624,000, respectively. These expenses are included in institutional advancement in the accompanying consolidated statement of activities.

5 - Cooperative Program

The Seminary's primary source of revenue is from the SBC. Churches giving through the cooperative program contribute to the SBC, which passes funds to the Seminary and other institutions. The Seminary received approximately $10,008,000 and $10,180,000 from the SBC for the years ended July 31, 2008 and 2007, respectively.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2008 and 2007

6 - Investments

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. During the year ended July 31, 2008, the Seminary activated the Foundation and transferred approximately $84 million of assets from the Baptist Foundation of Texas to the Foundation. Investments at July 31, 2008 consist of the following:

Mutual funds	$ 40,134,056
Common stocks	30,101,323
Municipal bonds	7,790,858
U. S. Government obligations	5,208,390
Corporate bonds	5,198,176
Money market funds	1,315,847
Oil and gas interests	668,336
Cash and cash equivalents	3,508,369
	$ 93,925,355

Investments consist of the following at July 31, 2007:

Domestic equity securities	$ 44,963,298
Fixed income	22,120,243
International equity securities	22,383,565
Short-term investments	3,432,170
Oil and gas interests	1,503,937
Real estate	2,626,385
Other	276,104
	$ 97,305,702

The following schedule summarizes investment return for the years ended July 31:

	2008	2007
Dividend and interest income	$ 6,858,270	$ 8,512,651
Net realized gains on investments	520,231	27,709,254
Net unrealized losses on investments	(5,865,571)	(19,856,310)
	$ 1,512,930	$ 16,365,595

Investment fees are netted against investment return.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2008 and 2007

7 - Property and Equipment

Property and equipment at July 31, 2008 and 2007 consist of the following:

	2008	2007
Land	$ 2,455,712	$ 2,455,712
Buildings	77,086,410	75,751,705
Equipment	12,675,392	12,534,785
Improvements other than buildings	5,378,919	5,307,536
Library books/microfilm	6,948,371	6,727,148
	104,544,804	102,776,886
Less: accumulated depreciation	(42,108,648)	(39,433,772)
Total	$ 62,436,156	$ 63,343,114

8 - Employee Benefits

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary contributes 10% of the participant's salary to the plan and also matches the participant's contributions up to a maximum of 5% of their salary. The Seminary's contribution for the years ended July 31, 2008 and 2007 was approximately $780,000 and $890,000, respectively.

Postretirement and Postemployment Benefits

Although no formal plan exists, the Seminary adopted a practice of providing postretirement benefits to retired employees. The Seminary does not fund past or future postretirement obligations, and future payments will be dependent upon sufficient funds being available to pay these obligations. Because the Seminary has paid benefits in the past, and intends to pay future benefits, the Seminary accrues the estimated cost of retiree benefits other than pensions during the employee's service period, and the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement.

During the fiscal year ended July 31, 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 which modified the recognition requirement for postretirement and postemployment benefits. The Seminary is now required to recognize the funded status of a defined benefit postretirement and postemployment plan which results in a liability at July 31, 2008 and 2007 of $7,620,213 and $5,294,195, respectively, less than the liability that would have been recognized under the prior rules. The adjustment is reported in the 2007 Statement of Activities.

The following table sets forth the future obligations at July 31:

	2008	2007
Accumulated benefit costs	$ 17,173,881	$ 18,246,283
Unrecognized prior service cost and gains or losses	7,620,213	5,294,195
Accrued benefit obligation	$ 24,794,094	$ 23,540,478

8 - Employee Benefits (continued)

Amount recognized in the statement of financial position as accrued benefit liability	$ (17,173,881)	$ (18,246,283)
Employer contributions	$ 780,892	$ 890,101
Benefits paid	$ 780,892	$ 890,101
Net periodic benefit cost	$ 2,058,367	$ 2,186,270
Weighted average assumptions		
Discount rate	6.25%	6.25%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

For measurement purposes, a 9.5% and 9.5% annual rate of increase in the per capital cost of covered health care benefits was assumed for preretirement coverage and 9.5% and 9.5% for postretirement coverage for July 31, 2008 and 2007, respectively. As of July 31, 2008 and 2007, these rates are expected to decrease 0.50% and 0.50%, respectively, every year until they reach a target rate of 5%.

The following pension benefit payments are expected to be paid in the following fiscal years:

2008-2009	$ 908,212
2009-2010	992,624
2010-2011	1,063,573
2011-2012	1,109,055
2012-2013	1,177,195
2013-2018	7,364,594

9 - Net Assets

Unrestricted net assets at July 31, 2008 and 2007 consist of the following:

	2008	2007
For current operations	$ 2,721,544	$ 3,083,080
Designated for specific purposes	5,357,224	8,201,262
Endowment	34,964,615	41,821,469
Invested in property, plant and equipment	55,824,731	56,555,869
Unfunded postretirement and postemployment benefits	(17,173,881)	(18,246,283)
Total	$ 81,694,234	$ 91,415,397

9 - Net Assets, continued

Temporarily restricted net assets consist of the following:

Capital projects	$ 18,634,038	$ 16,742,639
Scholarships	4,518,804	3,615,323
Other	12,752,950	12,498,077
Annuity and life income funds	-	58,886
Total	$ 35,905,792	$ 32,914,925

Permanently restricted net assets consist of the following:

Loan funds	$ 1,842,126	$ 1,822,807
Annuity and life income funds	5,035,728	5,392,834
Endowment funds	92,760,609	90,858,947
Total	$ 99,638,463	$ 98,074,588

10 - Lease Commitments

The Seminary has a noncancelable operating lease for copier services expiring November 2010. Lease expense was $280,000 and $243,000 for the years ended July 31, 2008 and 2007, respectively. The Seminary's future minimum lease payments under this lease agreement are as follows for the years ended July 31:

2009	$ 121,800
2010	33,400
2011	24,500
2012	24,500
Future minimum lease payments	$ 204,200

11 - Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Foundation currently invests primarily in government, municipal, and corporate bonds, corporate stocks, and mutual funds. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

During 2008 the markets for equity securities reported significant declines. The Dow Jones and NASDC reported declines of over thirty-five percent. Management believes that their current endowment investment strategy is prudent long-term. However, should the unprecedented declines continue, or fail to be restored in the near future; anticipated earnings for operations will be significantly below projections. Management is actively evaluating the effect these events will have on current and future operations.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Financial Statements

July 31, 2009 and 2008

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Financial Statements
July 31, 2009 and 2008

TABLE OF CONTENTS

Ratliff & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
Southwestern Baptist Theological Seminary:

We have audited the accompanying consolidated statements of financial position of Southwestern Baptist Theological Seminary (the "Seminary") (a Texas not-for-profit corporation) as of July 31, 2009 and 2008, 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 audit. The prior year's summarized comparative information has been derived from the Seminary's 2008 financial statements and, in our report dated October 13, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consolidated 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 our audit provides 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 Southwestern Baptist Theological Seminary as of July 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Ratliff & Associates, P.C.

October 16, 2009

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SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statement of Financial Position
July 31, 2009 and 2008

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
Cash and cash equivalents	$ 6,872,461	$ 5,659,743	$ -	$ 12,532,204	$ 8,506,816
Accounts receivable, net	1,139,900	33,960	136,970	1,310,830	2,001,044
Unconditional promises to give, net	-	6,458,164	-	6,458,164	10,055,692
Other assets	414,688	-	-	414,688	541,245
Investments					
Endowment funds	16,230,204	-	44,491,209	60,721,413	76,850,964
Other	4,620,572	10,247,156	-	14,867,728	17,074,391
	20,850,776	10,247,156	44,491,209	75,589,141	93,925,355
Investments held in trust by third parties					
Endowment funds	-	-	44,294,955	44,294,955	54,146,401
Annuity funds	-	-	4,173,401	4,173,401	4,649,673
		-	48,468,356	48,468,356	58,796,074
Due from (to) other funds	(6,471,581)	7,140,288	(668,707)	-	-
Property, plant and equipment, net	55,209,907	6,433,641	-	61,643,548	62,436,156
Total assets	$ 78,016,151	$ 35,972,952	$ 92,427,828	$ 206,416,931	$ 236,262,382
LIABILITIES AND NET ASSETS					
Accounts payable	$ 571,372	$ -	$ -	$ 571,372	$ 244,378
Accrued salaries and benefits	239,175	-	-	239,175	351,514
Deposits and agency funds	187,703	-	-	187,703	125,749
Deferred income	918,843	-	-	918,843	1,128,371
Accrued postretirement benefit obligation	20,160,363	-	-	20,160,363	16,935,898
Accrued postemployment benefit obligation	317,402	-	-	317,402	237,983
Total liabilities	22,394,858	-	-	22,394,858	19,023,893
Net Assets					
Unrestricted	55,621,293			55,621,293	81,694,234
Temporarily restricted	-	35,972,952		35,972,952	35,905,792
Permanently restricted	-	-	92,427,828	92,427,828	99,638,463
Total net assets	55,621,293	35,972,952	92,427,828	184,022,073	217,238,489
Total liabilities and net assets	$ 78,016,151	$ 35,972,952	$ 92,427,828	$ 206,416,931	$ 236,262,382

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Years Ended July 31, 2009 and 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
Revenues and other additions					
Tuition and fees	$ 9,888,942	$ 114,361	$ -	$ 10,003,303	$ 10,117,422
Scholarships and fellowships	(3,174,875)	-	-	(3,174,875)	(3,199,417)
Gifts					
Cooperative program	9,853,518	-	-	9,853,518	10,162,667
Student aid	-	2,432,182	-	2,432,182	2,682,254
Endowment	-	-	1,478,651	1,478,651	4,343,750
Other	1,116,958	2,572,879	-	3,689,837	4,188,833
Investment return	(16,451,356)	21,982	(36,706)	(16,466,080)	1,512,930
Auxiliary enterprises	6,867,686	-	-	6,867,686	6,818,439
Change in value of third-party trusts	-	-	(8,652,980)	(8,652,980)	(2,801,193)
Other	2,142,903	111,070	400	2,254,373	2,292,231
Net assets released from restriction	5,185,314	(5,185,314)	-	-	-
	15,429,090	67,160	(7,210,635)	8,285,615	36,117,916
Expenses and other deductions					
Instructional	21,950,732		-	21,950,732	20,763,949
Institutional support	7,476,768		-	7,476,768	8,250,513
Student services	1,377,110		-	1,377,110	1,656,951
Institutional advancement	2,656,315		-	2,656,315	2,852,098
Auxiliary enterprises	8,041,106		-	8,041,106	7,760,826
Total operating expenses	41,502,031	-	-	41,502,031	41,284,337
Change in net assets	(26,072,941)	67,160	(7,210,635)	(33,216,416)	(5,166,421)
Net assets at beginning of the year	81,694,234	35,905,792	99,638,463	217,238,489	222,404,910
Net assets at end of the year	$ 55,621,293	$ 35,972,952	$ 92,427,828	$ 184,022,073	$ 217,238,489

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Cash Flows
For the Years Ended July 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Decrease in Net Assets	$ (33,216,416)	$ (5,166,421)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	2,638,886	2,705,396
Contributions restricted for endowment and acquisition of long-term assets	(3,015,224)	(7,077,992)
Net realized and unrealized losses (gains) on investments	14,829,899	(5,345,039)
Change in value of third party trusts	8,652,980	2,801,193
Decrease (increase) in operating assets:		
Receivables	690,214	1,072,205
Unconditional promises to give	3,597,528	2,294,520
Other assets	126,557	276,751
Increase (decrease) in operating liabilities:		
Accounts payable	326,994	(329,755)
Other accrued liabilities	(50,385)	(107,930)
Deferred income	(209,528)	380,599
Accrued postretirement benefit obligation	3,224,465	(1,048,543)
Accrued postemployment benefit obligation	79,419	(23,859)
Net cash utilized by operating activities	(2,324,611)	(9,568,875)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	5,404,648	13,352,008
Purchase of investments	(223,595)	(6,850,869)
Purchase of property, plant and equipment	(1,846,278)	(1,798,438)
Net cash provided by investing activities	3,334,775	4,702,701
Cash Flows from Financing Activities		
Contributions restricted for endowments and acquisition of long-term assets	3,015,224	7,077,992
Net increase in cash and cash equivalents	4,025,388	2,211,818
Cash and cash equivalents at beginning of year	8,506,816	6,294,998
Cash and cash equivalents at end of year	$ 12,532,204	$ 8,506,816

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2009 and 2008

1 - Nature of Organization

Southwestern Baptist Theological Seminary (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Seminary's primary activities are to provide theological education for individuals engaging in Christian ministry. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the Southern Baptist Convention ("SBC") and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2 - Summary of Significant Accounting Policies

A summary of the Seminary's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation - The Seminary consolidates the accounts of The Southwestern Baptist Seminary Development Foundation ("Development") and Southwestern Seminary Foundation ("Foundation"), Texas non-profit corporations. Development was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. Foundation was formed in 2005 and became active in 2008. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage the Seminary's investment portfolio. Development and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of Development and Foundation, any assets which they may have shall vest in the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting - The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenues and Support - Revenues and support for the Seminary are primarily derived from tuition, fees and contributions from the donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions - The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue recognition - Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2009 and 2008

2 - Summary of Significant Accounting Policies (continued)

Recognition of Donor Restrictions (continued) - Income and investment gains and losses on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets - Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services - The Seminary receives substantial support in the form of donated services. Contributed services are recognized as unrestricted revenues if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 30, 2009 and 2008.

Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Programs - Southwestern Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local Seminary, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional - providing a seminary education for postgraduate degrees in theology, evangelism and missions, Seminary music, and educational ministries.

Institutional support - providing support for the general operations of the Seminary.

Student services - providing placement and employment services to Seminary students.

Institutional advancement - facilitating giving from alumni, corporations and friends of the Seminary.

Auxiliary enterprises - providing housing, dining, recreational and other services to Seminary students.

Cash Equivalents - For purposes of the Statement of Cash Flows, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable - The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of the semester and are stated at amounts due from students net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the semester are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Students whose accounts are not current are not allowed to enroll in classes. Allowance for doubtful accounts for the years ended July 31, 2009 and 2008 was approximately $329,920 and $409,590, respectively.

Investments - Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses of investments are reflected in the statement of activities. Investments received by gift or bequest are recorded at fair value at the date of acquisition. If fair value is not determinable at date of acquisition, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

Investments Held in Trust by Third Parties - The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts held by others and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized for the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the statement of activities as a change in value of third-party trusts. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions using a discount rate of 3.8% to 10.6%.

The Seminary is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts (as measured by the fair value of the underlying investments at the Seminary's fiscal year end) are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as endowment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Property, Plant and Equipment - Property, plant and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	3 - 10 years
Improvements other than buildings	10 years
Library books/microfilm	20 years

Impairment of Long-Lived Assets - Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2009 and 2008

2 - Summary of Significant Accounting Policies (continued)

Unconditional Promises to Give - The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectibility and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences - Employees of the Seminary are entitled to paid vacation leave depending upon the length of service and other factors. The Seminary's policy is to recognize the cost of compensated absences when earned by employees.

Income Tax Status - The Seminary is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax.

3 - Unconditional Promises to Give

Unconditional promises to give at July 31, 2009 and 2008 are restricted for capital expenditures. Scheduled maturities of unconditional promises to give are as follows:

	2009	2008
Less than one year	$ 3,992,660	$ 4,133,333
One to five years	2,846,667	6,691,427
	6,839,327	10,824,760
Less: unamortized discount at 4.0%	(381,163)	(769,068)
Net unconditional promises to give	$ 6,458,164	$ 10,055,692

The Seminary evaluates the collectability of promises to give and no allowance for doubtful accounts was considered necessary at July 31, 2009 or 2008.

4 - Fund-Raising Activities

Fund-raising expense for the years ended July 31, 2009 and 2008 was approximately $1,321,000 and $1,468,000, respectively. These expenses are included in institutional advancement in the accompanying consolidated statement of activities.

5 - Cooperative Program

The Seminary's primary source of revenue is from the SBC. Churches giving through the cooperative program contribute to the SBC, which passes funds to the Seminary and other institutions. The Seminary received approximately $9,659,000 and $10,008,000 from the SBC for the years ended July 31, 2009 and 2008, respectively.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2009 and 2008

6 - Investments

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following:

	2009	2008
Mutual funds	$ -	$ 40,134,056
Common stocks	35,449,460	30,101,323
Municipal bonds	2,587,620	7,790,858
U. S. Government obligations	9,933,565	5,208,390
Corporate bonds	-	5,198,176
Money market funds	26,489,222	1,315,847
Oil and gas interests	78,840	668,336
Cash and cash equivalents	1,050,434	3,508,369
	$ 75,589,141	$ 93,925,355

The following schedule summarizes investment return for the years ended July 31:

	2009	2008
Dividend and interest income	$ 4,773,259	$ 6,858,270
Net unrealized gains on investments	1,829,722	520,231
Net realized losses on investments	(23,069,061)	(5,865,571)
	$ (16,466,080)	$ 1,512,930

Investment fees are netted against investment return.

7 - Property and Equipment

Property and equipment at July 31, 2009 and 2008 consist of the following:

	2009	2008
Land	$ 2,455,712	$ 2,455,712
Buildings	78,219,765	77,086,410
Equipment	12,899,181	12,675,392
Improvements other than buildings	5,425,039	5,378,919
Library books/microfilm	7,220,153	6,948,371
	106,219,850	104,544,804
Less: accumulated depreciation	(44,576,302)	(42,108,648)
Total	$ 61,643,548	$ 62,436,156

8 - Employee Benefits

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary contributes 10% of the participant's salary to the plan and also matches the participant's contributions up to a maximum of 5% of their salary. The Seminary's contribution for the years ended July 31, 2009 and 2008 was approximately $677,000 and $1,553,000, respectively. Beginning in January 2009, the Seminary temporarily suspended their contributions to their retirement plan.

Postretirement and Postemployment Benefits

Although no formal plan exists, the Seminary adopted a practice of providing postretirement benefits to retired employees. The Seminary does not fund past or future postretirement obligations, and future payments will be dependent upon sufficient funds being available to pay these obligations. Because the Seminary has paid benefits in the past, and intends to pay future benefits, the Seminary accrues the estimated cost of retiree benefits other than pensions during the employee's service period, and the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement.

During the fiscal year ended July 31, 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 which modified the recognition requirement for postretirement and postemployment benefits. The Seminary is now required to recognize the funded status of a defined benefit postretirement and postemployment plan which results in a liability at July 31, 2009 and 2008 of $5,515,246 and $7,620,213, respectively, less than the liability that would have been recognized under the prior rules. The following table sets forth the future obligations at July 31:

	2009	2008
Accumulated benefit costs	$ 20,477,765	$ 17,173,881
Unrecognized prior service cost and gains or losses	5,515,246	7,620,213
Accrued benefit obligation	$ 25,993,011	$ 24,794,094
Amount recognized in the statement of financial position as accrued benefit liability	$ (20,477,765)	$ (17,173,881)
Employer contributions	$ 755,096	$ 780,892
Benefits paid	$ 755,096	$ 780,892
Net periodic benefit cost	$ 1,874,594	$ 2,058,367
Weighted average assumptions		
Discount rate	6.25%	6.25%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2009 and 2008

8 - Employee Benefits (continued)

For measurement purposes, a 9.5% and 9.5% annual rate of increase in the per capital cost of covered health care benefits was assumed for preretirement coverage and 9.5% and 9.5% for postretirement coverage for July 31, 2009 and 2008, respectively. As of July 31, 2009 and 2008, these rates are expected to decrease 0.50% and 0.50%, respectively, every year until they reach a target rate of 5%.

The following pension benefit payments are expected to be paid in the following fiscal years:

2009-2010	$ 943,923
2010-2011	984,519
2011-2012	1,027,574
2012-2013	1,092,298
2013-2014	1,180,525
2014-2018	7,077,818

9 - Net Assets

Unrestricted net assets at July 31, 2009 and 2008 consist of the following:

	2009	2008
For current operations	$ 2,773,205	$ 2,721,545
Designated for specific purposes	2,151,737	5,357,224
Endowment	15,964,209	34,964,615
Invested in property, plant and equipment	55,209,907	55,824,731
Unfunded postretirement and postemployment benefits	(20,477,765)	(17,173,881)
Total	$ 55,621,293	$ 81,694,234

Temporarily restricted net assets consist of the following:

	2009	2008
Capital projects	$ 19,227,844	$ 18,634,038
Scholarships	4,963,983	4,518,804
Other	11,781,125	12,752,950
Total	$ 35,972,952	$ 35,905,792

Permanently restricted net assets consist of the following:

	2009	2008
Loan funds	$ 1,805,820	$ 1,842,126
Annuity and life income funds	5,314,851	5,035,728
Endowment funds	85,307,157	92,760,609
Total	$ 92,427,828	$ 99,638,463

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2009 and 2008

10 - Permanently Restricted Investments

The Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Seminary and the donor-restricted endowment fund, general economic conditions, other resources of the Seminary, and the investment policies of the Seminary.

The following is a summary of endowment assets at July 31:

	2009	2008
Endowment funds (Investments)	$ 60,721,413	$ 76,850,964
Investments held in trust by third parties:		
Endowment funds	44,294,955	54,146,401
Annuity funds	4,173,401	4,649,673
Endowment assets	$ 109,189,769	$ 135,647,038

Endowment net assets as of July 31, 2009 are composed of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 1,562,149	$ -	$ 90,865,679	$ 92,427,828
Board-designated endowment funds	16,761,941	-	-	16,761,941
Total funds	$ 18,324,090	$ -	$ 90,865,679	$109,189,769

The change in endowment net assets for the year ended July 31, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of period	$ 36,414,188	$ 1,156,136	$ 98,076,714	$135,647,038
Investment income		21,982	(36,706)	(14,724)
Realized and unrealized gains (losses)	(18,106,333)	-	-	(18,106,333)
Change in value of third-party trusts	-	-	(8,652,980)	(8,652,980)
Total investment income	(18,106,333)		(8,689,686)	(26,684,037)
Contributions	16,235	2,572,879	1,478,651	4,067,765
Distributions	-	(3,750,997)	-	(3,750,997)
Net assets, end of period	$ 18,324,099	$ -	$ 90,865,679	$109,189,769

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2009 and 2008

10 - Permanently Restricted Investments (continued)

Endowment net assets as of July 31, 2008 are composed of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,156,136	$ 98,076,714	$ 99,232,850
Board-designated endowment funds	36,414,188	-	-	36,414,188
Total funds	$ 36,414,188	$ 1,156,136	$ 98,076,714	$135,647,038

The change in endowment net assets for the year ended July 31, 2008 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of period	$ 36,749,035	$ 1,026,375	$ 96,550,748	$134,326,158
Investment income	5,491,752	1,865,781	20,968	7,378,501
Realized and unrealized gains (losses)	(5,828,012)	-	(37,559)	(5,865,571)
Change in value of third-party trusts	-	-	(2,801,193)	(2,801,193)
Total investment income	(336,260)	1,865,781	(2,817,784)	(1,288,263)
Contributions	1,413	3,712,924	4,343,750	8,058,087
Distributions	-	(5,448,944)	-	(5,448,944)
Net assets, end of period	$ 36,414,188	$ 1,156,136	$ 98,076,714	$135,647,038

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist agencies throughout the United States. These agencies do not report donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Seminary as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

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 UPMIFA requires the Seminary to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and amounted to $1,561,412 at July 31, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Seminary. There were no such deficiencies as of July 31, 2008.

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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500, or other recognized market indexes, while assuming moderate level of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2009 and 2008

10 - Permanently Restricted Investments (continued)

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 Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value based on a 12 quarter moving average of December 31 portfolio values, with a budgeting lead of seven months. (That is, the moving average will be determined seven months before the fiscal year in which the funds are to be spent.) In establishing this policy, the Seminary considered the long-term expected return on its endowment. Accordingly, over the long term, the Seminary expects the current spending policy to allow its endowment to grow at an average of 4% annually. This is consistent with the Seminary's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

11 - Financial Instruments

The Seminary adopted SFAS No. 157, "Fair Value Measurements" during 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS 157 defines fair value based upon an exit price model. SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Financial instruments by category lever at July 31, 2009 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Investments				
Endowment funds	$ 60,721,413	$ 60,721,413	$ -	$ -
Other	14,867,728	14,867,728	-	-
Investments Held in Trust by Third Parties				
Endowment funds	44,294,955	37,168,583	-	7,126,372
Annuities	4,173,401	3,657,592	-	515,809
Financial instruments	$ 124,057,497	$ 116,415,316	$ -	$ 7,642,181

12 - Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Foundation currently invests primarily in government, municipal, and corporate bonds, corporate stocks, and mutual funds. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

13 – Lease Commitments

The Seminary has non-cancelable operating leases for copier services expiring October 2014. Lease expenses were $359,000 and $280,000 for the years ended July 31, 2009 and 2008, respectively. The Seminary's future minimum lease payments under the lease agreements are as follows for the years ended July 31:

2010	$ 306,000
2011	206,000
2012	206,000
2013	205,000
2014	68,000
Future minimum lease payments	$ 991,000

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Financial Statements

July 31, 2010 and 2009

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Financial Statements
July 31, 2010 and 2009

TABLE OF CONTENTS

Ratliff & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
Southwestern Baptist Theological Seminary:

We have audited the accompanying consolidated statements of financial position of Southwestern Baptist Theological Seminary (the "Seminary") (a Texas not-for-profit corporation) 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 audit. The prior year's summarized comparative information has been derived from the Seminary's 2009 financial statements and, in our report dated October 16, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consolidated 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 our audit provides 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 Southwestern Baptist Theological Seminary as of July 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Ratliff & Associates, P.C.

October 13, 2010

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SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statement of Financial Position
July 31, 2010 and 2009

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Cash and cash equivalents	$ 13,966,642	$ 9,172,137	$ -	$ 23,138,779	$ 12,532,204
Accounts receivable, net	784,719	33,960	158,337	977,016	1,310,830
Unconditional promises to give, net	-	8,690,686	362,990	9,053,676	6,458,164
Other assets	595,312	-	-	595,312	414,688
Investments					
Endowment funds	16,376,014	-	44,112,157	60,488,171	60,721,413
Other	4,910,821	4,909,322	-	9,820,143	14,867,728
	21,286,835	4,909,322	44,112,157	70,308,314	75,589,141
Investments held in trust by third parties					
Endowment funds	-	-	43,120,986	43,120,986	44,294,955
Annuity funds	-	-	12,627,376	12,627,376	12,156,834
		-	55,748,362	55,748,362	56,451,789
Due from (to) other funds	(10,430,943)	11,255,739	(824,796)	-	-
Property, plant and equipment, net	56,802,646	7,798,246	-	64,600,892	61,643,548
Total assets	$ 83,005,211	$ 41,860,090	$ 99,557,050	$ 224,422,351	$ 214,400,364
LIABILITIES AND NET ASSETS					
Accounts payable	$ 1,586,936	$ -	$ -	$ 1,586,936	$ 571,372
Accrued salaries and benefits	134,458	-	-	134,458	239,175
Deposits and agency funds	206,803	-	-	206,803	187,703
Deferred income	727,162	-	-	727,162	918,843
Liability under annuity contracts	-	-	9,032,809	9,032,809	7,983,433
Accrued postretirement benefit obligation	-	-	-	-	20,160,363
Accrued postemployment benefit obligation	354,977	-	-	354,977	317,402
Total liabilities	3,010,336	-	9,032,809	12,043,145	30,378,291
Net Assets					
Unrestricted	79,994,875	-	-	79,994,875	55,621,293
Temporarily restricted	-	41,860,090	-	41,860,090	41,222,030
Permanently restricted	-	-	90,524,241	90,524,241	87,178,750
Total net assets	79,994,875	41,860,090	90,524,241	212,379,206	184,022,073
Total liabilities and net assets	$ 83,005,211	$ 41,860,090	$ 99,557,050	$ 224,422,351	$ 214,400,364

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Activities
For the Years Ended July 31, 2010 and 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Revenues and other additions					
Tuition and fees	$ 10,313,372	$ -	$ -	$ 10,313,372	$ 10,003,303
Scholarships and fellowships	(3,058,172)	-	-	(3,058,172)	(3,174,875)
Gifts					
Cooperative program	9,439,145	-	-	9,439,145	9,853,518
Student aid	-	2,087,414	-	2,087,414	2,432,182
Endowment	-	-	1,064,954	1,064,954	1,478,651
Other	611,706	6,418,935	-	7,030,641	3,689,837
Investment return	5,106,452	1,040,164	84,298	6,230,914	(16,466,080)
Auxiliary enterprises	6,706,973	-	-	6,706,973	6,867,686
Change in value of third-party trusts	-	-	2,196,239	2,196,239	(8,652,980)
Other	1,936,486	-	-	1,936,486	2,254,373
Net assets released from restriction	8,908,453	(8,908,453)	-	-	-
	39,964,415	638,060	3,345,491	43,947,966	8,285,615
Expenses and other deductions					
Instructional	18,786,979	-	-	18,786,979	21,950,732
Institutional support	6,772,157	-	-	6,772,157	7,476,768
Student services	1,167,457	-	-	1,167,457	1,377,110
Institutional advancement	2,225,137	-	-	2,225,137	2,656,315
Auxiliary enterprises	6,799,466	-	-	6,799,466	8,041,106
Total operating expenses	35,751,196	-	-	35,751,196	41,502,031
Excess revenue over expenses	4,213,219	638,060	3,345,491	8,196,770	(33,216,416)
Extraordinary item					
Gain from change in accounting for post retirement benefits (see note)	20,160,363	-	-	20,160,363	-
Change in net assets	24,373,582	638,060	3,345,491	28,357,133	(33,216,416)
Net assets at beginning of the year	55,621,293	41,222,030	87,178,750	184,022,073	217,238,489
Net assets at end of the year	$ 79,994,875	$ 41,860,090	$ 90,524,241	$ 212,379,206	$ 184,022,073

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Cash Flows
For the Years Ended July 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in Net Assets	$ 28,357,133	$ (33,216,416)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	2,524,994	2,638,886
Contributions restricted for endowment and acquisition of long-term assets	(5,742,971)	(3,015,224)
Net realized and unrealized losses (gains) on investments	(25,574)	13,000,177
Investment income	(6,205,340)	1,829,722
Gain on sales of assets	(17,098)	-
Change in value of third party trusts	2,196,239	(8,652,980)
Decrease (increase) in operating assets:		
Receivables	333,814	690,214
Unconditional promises to give	(2,595,512)	3,597,528
Other assets	(180,624)	126,557
Increase (decrease) in operating liabilities:		
Accounts payable	1,015,564	326,994
Other accrued liabilities	(85,617)	(50,385)
Deferred income	(191,681)	(209,528)
Annuity Liability	1,049,376	(1,322,779)
Accrued postretirement benefit obligation	(20,160,363)	3,224,465
Accrued postemployment benefit obligation	37,575	79,419
Net cash provided (utilized) by operating activities	309,915	(20,953,350)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	13,759,352	24,033,387
Purchase of investments	(3,740,423)	(223,595)
Proceeds from sales of assets	25,826	-
Purchase of property, plant and equipment	(5,491,066)	(1,846,278)
Net cash provided by investing activities	4,553,689	21,963,514
Cash Flows from Financing Activities		
Contributions restricted for endowments and acquisition of long-term assets	5,742,971	3,015,224
Net increase in cash and cash equivalents	10,606,575	4,025,388
Cash and cash equivalents at beginning of year	12,532,204	8,506,816
Cash and cash equivalents at end of year	$ 23,138,779	$ 12,532,204

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2010 and 2009

1 - Nature of Organization

Southwestern Baptist Theological Seminary (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Seminary's primary activities are to provide theological education for individuals engaging in Christian ministry. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the Southern Baptist Convention ("SBC") and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2 - Summary of Significant Accounting Policies

A summary of the Seminary's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation - The Seminary consolidates the accounts of The Southwestern Baptist Seminary Development Foundation ("Development") and Southwestern Seminary Foundation ("Foundation"), Texas non-profit corporations. Development was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. Foundation was formed in 2005 and became active in 2008. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage the Seminary's investment portfolio. Development and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of Development and Foundation, any assets which they may have shall vest in the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting - The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenues and Support - Revenues and support for the Seminary are primarily derived from tuition, fees and contributions from the donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions - The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue recognition - Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2010 and 2009

2 - Summary of Significant Accounting Policies (continued)

Recognition of Donor Restrictions (continued) - Income and investment gains and losses on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets - Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services - The Seminary receives substantial support in the form of donated services. Contributed services are recognized as unrestricted revenues if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 30, 2009 and 2008.

Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Programs - Southwestern Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local Seminary, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional - providing a seminary education for postgraduate degrees in theology, evangelism and missions, Seminary music, and educational ministries.

Institutional support - providing support for the general operations of the Seminary.

Student services - providing placement and employment services to Seminary students.

Institutional advancement - facilitating giving from alumni, corporations and friends of the Seminary.

Auxiliary enterprises - providing housing, dining, recreational and other services to Seminary students.

Cash Equivalents - For purposes of the Statement of Cash Flows, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2010 and 2009

2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable - The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of the semester and are stated at amounts due from students net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the semester are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Students whose accounts are not current are not allowed to enroll in classes. Allowance for doubtful accounts for the years ended July 31, 2010 and 2009 was approximately $362,720 and $329,920, respectively.

Investments - Investments in debt, equity securities and mineral rights are stated at fair value based on an exit price model. The net realized and unrealized gains and losses of investments are reflected in the statement of activities. Investments received by gift or bequest are recorded at fair value at the date of acquisition. If fair value is not determinable at date of acquisition, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

Investments Held in Trust by Third Parties - The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts held by others and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized for the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the statement of activities as a change in value of third-party trusts. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions using a discount rate of 3.8% to 10.6%.

The Seminary is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts (as measured by the fair value of the underlying investments at the Seminary's fiscal year end) are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as endowment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Property, Plant and Equipment - Property, plant and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	3 - 10 years
Improvements other than buildings	10 years
Library books/microfilm	20 years

Impairment of Long-Lived Assets - Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2010 and 2009

2 - Summary of Significant Accounting Policies (continued)

Unconditional Promises to Give - The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectibility and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences - Employees of the Seminary are entitled to paid vacation leave depending upon the length of service and other factors. The Seminary's policy is to recognize the cost of compensated absences when earned by employees.

3 - Unconditional Promises to Give

Unconditional promises to give at July 31, 2010 and 2009 are restricted for capital expenditures. Scheduled maturities of unconditional promises to give are as follows:

	2010	2009
Less than one year	$ 5,935,601	$ 3,992,660
One to five years	3,296,667	2,846,667
	9,232,268	6,839,327
Less: unamortized discount at 4.0%	(178,592)	(381,163)
Net unconditional promises to give	$ 9,053,676	$ 6,458,164

The Seminary evaluates the collectability of promises to give and no allowance for doubtful accounts was considered necessary at July 31, 2010 or 2009.

4 - Fund-Raising Activities

Fund-raising expense for the years ended July 31, 2010 and 2009 was approximately $1,071,000 and $1,321,000, respectively. These expenses are included in institutional advancement in the accompanying consolidated statement of activities.

5 - Cooperative Program

The Seminary's primary source of revenue is from the SBC. Churches giving through the cooperative program contribute to the SBC, which passes funds to the Seminary and other institutions. The Seminary received approximately $9,439,000 and $9,659,000 from the SBC for the years ended July 31, 2010 and 2009, respectively.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2010 and 2009

6 - Investments

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following:

	2010	2009
Mutual funds	$ 1,733,922	$ -
Common stocks	27,676,337	35,449,460
Municipal bonds	1,069,040	2,587,620
U. S. Government obligations	7,219,465	9,933,565
Mortgage backed securities	5,806,814	-
Money market funds	4,716,135	26,489,222
Investments in partnerships	21,902,695	-
Oil and gas interests	-	78,840
Cash and cash equivalents	183,907	1,050,434
	$ 70,308,315	$ 75,589,141

The following schedule summarizes investment return for the years ended July 31:

	2010	2009
Dividend and interest income	$ 6,205,340	$ 4,773,259
Net realized gains (losses) on investments	(1,054,416)	1,829,722
Net unrealized gains (losses) on investments	1,079,992	(23,069,061)
	$ 6,230,916	$ (16,466,080)

Investment fees are netted against investment return.

7 - Property and Equipment

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

	2010	2009
Land	$ 2,455,712	$ 2,455,712
Buildings	82,173,145	78,219,765
Equipment	13,375,335	12,899,181
Improvements other than buildings	5,425,540	5,425,039
Library books/microfilm	8,512,426	7,220,153
	111,942,158	106,219,850
Less: accumulated depreciation	(47,341,266)	(44,576,302)
Total	$ 64,600,892	$ 61,643,548

Buildings include construction in progress, most of which is for the new chapel, totaling $5,205,032 and $1,571,696 at July 31, 2010 and 2009, respectively. Additional commitments remaining under construction contracts total approximately $30,963,000.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2010 and 2009

8 - Employee Benefits

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary contributes 10% of the participant's salary to the plan and also matches the participant's contributions up to a maximum of 5% of their salary. Beginning in January 2009, the Seminary temporarily suspended their contributions to their retirement plan until January 2011 at which time they will restore plan to provide a 5% contribution excluding a matching provision. The Seminary's contribution for the years ended July 31, 2010 and 2009 was approximately $0 and $677,000, respectively.

Postretirement and Postemployment Benefits

In years prior to 2010, the Seminary provided post employment and postretirement benefits to retired employees although no formal plan existed. Effective August 1, 2010 the Seminary board of trustees voted to discontinue payment of future postretirement obligations. Accordingly the postretirement liability of $20,160,363 is reflected as an extraordinary item in the Statement of Activities.

The Seminary continues to provide postemployment benefits to retired employees. The following table sets forth the future obligations at July 31, 2010:

Accumulated benefit costs	$ 354,977
Employer contributions (benefits paid)	$ 26,587
Net periodic benefit cost	$ 64,162
Discount rate assumed	5.25%

Because the Seminary paid benefits in the past, and intended to pay future benefits, the Seminary was required to accrue the estimated cost of retiree benefits other than pensions during the employee's service period, and the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement. The following table sets forth the future obligations at July 31, 2009:

Accumulated benefit costs	$ 20,477,765
Unrecognized prior service cost and gains or losses	5,515,246
Accrued benefit obligation	$ 25,993,011
Amount recognized in the statement of financial position as accrued benefit liability	$ (20,477,765)
Employer contributions	$ 755,096
Benefits paid	$ 755,096
Net periodic benefit cost	$ 1,874,594
Weighted average assumptions	
Discount rate	6.25%
Expected long-term rate of return on plan assets	N/A
Rate of compensation increase	N/A

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2010 and 2009

9 - Net Assets

Unrestricted net assets at July 31, 2010 and 2009 consist of the following:

	2010	2009
For current operations	$ 1,764,044	$ 2,773,205
Designated for specific purposes	3,775,052	2,151,737
Endowment	16,574,183	15,964,209
Invested in property, plant and equipment	58,236,572	55,209,907
Unfunded postemployment benefits	(354,977)	(20,477,765)
Total	$ 79,994,874	$ 55,621,293

Temporarily restricted net assets consist of the following:

	2010	2009
Capital projects	$ 24,063,139	$ 19,227,844
Scholarships	5,662,109	4,963,983
Other	12,134,842	11,781,125
Total	$ 41,860,090	$ 35,972,952

Permanently restricted net assets consist of the following:

	2010	2009
Loan funds	$ 1,862,459	$ 1,805,820
Annuity and life income funds	5,284,676	5,314,851
Endowment funds	83,377,106	85,307,157
Total	$ 90,524,241	$ 92,427,828

10 - Permanently Restricted Investments

The Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Seminary and the donor-restricted endowment fund, general economic conditions, other resources of the Seminary, and the investment policies of the Seminary.

The following is a summary of endowment assets at July 31:

	2010	2009
Endowment funds (Investments)	$ 60,488,171	$ 60,721,413
Investments held in trust by third parties:		
Endowment funds	43,120,986	44,294,955
Annuity funds, net of liability	3,594,567	4,173,401
Endowment assets	$ 107,203,724	$ 109,189,769

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2010 and 2009

10 - Permanently Restricted Investments (continued)

Endowment net assets as of July 31, 2010 are composed of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 90,524,241	$ 90,524,241
Board-designated endowment funds	16,625,880	53,603	-	16,679,483
Total funds	$ 16,625,880	$ 53,603	$ 90,524,241	$107,203,724

The change in endowment net assets for the year ended July 31, 2010 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of period	$ 16,761,941	$ 5,249,078	$ 87,178,750	$109,189,769
Investment income	5,106,453	1,040,164	84,298	6,230,915
Change in value of third-party trusts	-	-	2,196,239	2,196,239
Total investment income	5,106,453	1,040,164	2,280,537	8,427,154
Contributions	-		1,064,954	1,064,954
Distributions	(5,242,514)	(6,235,639)	-	(11,475,153)
Net assets, end of period	$ 16,625,880	$ 53,603	$ 90,524,241	$107,203,724

Endowment net assets as of July 31, 2009 are composed of the following:

Temporarily	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 5,249,078	$ 87,178,750	$ 92,427,828
Board-designated endowment funds	16,761,941	-	-	16,761,941
Total funds	$ 16,761,941	$ 5,249,078	$ 87,178,750	$109,189,769

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2010 and 2009

10 - Permanently Restricted Investments (continued)

The change in endowment net assets for the year ended July 31, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of period	$ 36,414,188	$ 1,156,136	$ 99,638,463	$135,647,038
Investment income		21,982	(36,706)	(14,724)
Realized and unrealized gains (losses)	(18,106,333)	-	-	(18,106,333)
Change in value of third-party trusts	-	-	(8,652,980)	(8,652,980)
Total investment income	(18,106,333)	21,982	(8,689,686)	(26,774,037)
Reclassification (Note 17)	-	5,249,078	(5,249,078)	-
Contributions	16,235	2,572,879	1,479,051	4,067,765
Distributions	-	(3,750,997)	-	(3,750,997)
Net assets, end of period	$ 16,761,941	$ 5,249,078	$ 87,178,750	$109,189,769

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist agencies throughout the United States. These agencies do not report donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Seminary as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

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 UPMIFA requires the Seminary to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and amounted to $0 at July 31, 2010. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Seminary. The deficiencies for July 31, 2009 were $1,561,412.

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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500, or other recognized market indexes, while assuming moderate level of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2010 and 2009

10 - Permanently Restricted Investments (continued)

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment fund's average fair value based on a 12 quarter moving average of portfolio values, with a budgeting lead of seven months. (That is, the moving average will be determined seven months before the fiscal year in which the funds are to be spent.) In establishing this policy, the Seminary considers the long-term expected return on its endowment. This is consistent with the Seminary's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

11 - Financial Instruments

Fair value hierarchy is used to disclose the inputs to fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Seminary's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Financial instruments by category lever at July 31, 2010 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Investments				
Endowment funds	$ 60,488,172	$ 32,778,663	$ 5,806,814	$ 21,902,695
Other	9,820,143	9,820,143	-	-
Investments Held in Trust by Third Parties				
Endowment funds	43,120,986	33,569,212	-	9,551,774
Annuities	3,594,567	3,594,567	-	-
Financial instruments	$ 117,023,868	$ 79,762,585	$ 5,806,814	$ 31,454,469

12 - Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Foundation currently invests primarily in government, municipal, and corporate bonds, corporate stocks, and mutual funds. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2010 and 2009

13 - Lease Commitments

The Seminary has non-cancelable operating leases for copier services expiring October 2014. Lease expenses were $274,000 and $359,000 for the years ended July 31, 2010 and 2009, respectively. The Seminary's future minimum lease payments under the lease agreements are as follows for the years ended July 31:

2011	$ 224,000
2012	216,000
2013	213,000
2014	75,000
Future minimum lease payments	$ 728,000

14 - Accounting for Uncertain Tax Positions

The Seminary is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. Generally accepted accounting principles (GAAP) provide detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. GAAP requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax in 2009 or 2010. Management believes there are no such positions as of December 31, 2010 and, accordingly, no liability has been accrued. The tax years ending in 2008, 2009 and 2010 are open to both federal and state examination.

15 - Split Interest Agreements

The Seminary has entered into several split interest agreements with donors whereby in exchange for the gift from the donor the Seminary is obligated to provide an annuity to the donor or other designated beneficiaries for a specific number of years. Liability under annuity contracts is recognized on the statement of financial position for the estimated present value of expected future payments to income beneficiaries, and an annuity investment is recorded at fair market value for the asset. The discount rates used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines.

Contributions revenues recognized under split interest agreements for the years ended 2010 and 2009, respectively, were $0 and $100,000. The value of the split interest agreements decreased $35,175 for the year ended 2010 and increased $4,359 for the year ended 2009.

16 - Subsequent Events

The Seminary has evaluated subsequent events through October 13, 2010, which is the date the financial statements were available to be issued.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2010 and 2009

17 - Correction of Classification Error in Prior Period and Change in Donor Restriction

Correction of Classification Error - In a prior year a $4,149,392 contribution was received with the restriction that it be held in perpetuity with a provision that the funds may be used for the erection of a building or other educational purpose if the Board of Trustees so elects. As a result of the construction of the new chapel, legal counsel reviewed the gift instrument and is of the opinion that this contribution qualifies for use in funding the construction cost of the chapel. Since the contribution should have been classified as a temporarily restricted net asset, it is reported as a correction of a classification error in a previously issued financial statement.

Redirected restriction - In other instances, the Seminary solicited permission from contributors to redirect their restriction for permanent investment for various programs to use in constructing the chapel. Consequently temporarily restricted net assets were increased by $1,099,686 with a corresponding decrease in permanently restricted net assets as follows:

	Temporarily Restricted	Permanently Restricted
Net assets as previously reported	$ 35,972,952	$ 92,427,828
Redirected restriction	1,099,686	(1,099,686)
Correction of classification error	4,149,392	(4,149,392)
Net assets as corrected	$ 41,222,030	$ 87,178,750

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Financial Statements

July 31, 2011 and 2010

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Financial Statements
July 31, 2011 and 2010

TABLE OF CONTENTS

Ratliff & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
Southwestern Baptist Theological Seminary:

We have audited the accompanying consolidated statements of financial position of Southwestern Baptist Theological Seminary (the "Seminary") (a Texas not-for-profit corporation) as of July 31, 2011 and 2010, 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 audit. The prior year's summarized comparative information has been derived from the Seminary's 2010 financial statements and, in our report dated October 13, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consolidated 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 our audit provides 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 Southwestern Baptist Theological Seminary as of July 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Ratliff & Associates, P.C.

October 13, 2011

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SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statement of Financial Position
July 31, 2011 and 2010

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Cash and cash equivalents	$ 12,256,259	$ 4,996,303	$ -	$ 17,252,562	$ 23,138,779
Accounts receivable, net	710,133	33,960	156,861	900,954	977,016
Unconditional promises to give, net	-	3,539,099	277,509	3,816,608	9,053,676
Other assets	570,022	-	-	570,022	595,312
Investments					
Endowment funds	12,225,496	-	43,940,646	56,166,142	60,488,171
Other	3,446,249	3,590,443	-	7,036,692	9,820,143
	15,671,745	3,590,443	43,940,646	63,202,834	70,308,314
Investments held in trust by third parties					
Endowment funds	-	-	47,973,711	47,973,711	43,120,986
Annuity funds	-	-	13,361,563	13,361,563	12,627,376
		-	61,335,274	61,335,274	55,748,362
Due from (to) other funds	(2,548,063)	432,753	2,115,310	-	-
Property, plant and equipment, net	79,670,259	7,798,246	-	87,468,505	64,600,892
Total assets	$ 106,330,355	$ 20,390,804	$ 107,825,600	$ 234,546,759	$ 224,422,351
LIABILITIES AND NET ASSETS					
Accounts payable	$ 3,357,156	$ -	$ -	$ 3,357,156	$ 1,586,936
Accrued salaries and benefits	365,965	-	-	365,965	134,458
Deposits and agency funds	164,446	-	-	164,446	206,803
Deferred income	355,876	-	-	355,876	727,162
Liability under annuity contracts	-	-	9,445,726	9,445,726	9,032,809
Accrued postemployment benefit obligation	400,706	-	-	400,706	354,977
Total liabilities	4,644,149	-	9,445,726	14,089,875	12,043,145
Total net assets	101,686,206	20,390,804	98,379,874	220,456,884	212,379,206
Total liabilities and net assets	$ 106,330,355	$ 20,390,804	$ 107,825,600	$ 234,546,759	$ 224,422,351

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Activities
For the Years Ended July 31, 2011 and 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Revenues and other additions					
Tuition and fees	$ 10,636,761	$ -	$ -	$ 10,636,761	$ 10,313,372
Scholarships and fellowships	(3,349,920)	-	-	(3,349,920)	(3,058,172)
Gifts					
Cooperative program	9,272,738	-	-	9,272,738	9,439,145
Student aid	-	2,123,710	-	2,123,710	2,087,414
Endowment	-	-	2,308,796	2,308,796	1,064,954
Other	1,176,834	2,968,596	-	4,145,430	7,030,641
Investment return	5,726,108	1,798,816	48,644	7,573,568	6,230,914
Auxiliary enterprises	5,967,804	-	-	5,967,804	6,706,973
Change in value of third-party trusts	-	-	5,498,193	5,498,193	2,196,239
Other	1,737,113	24,921	-	1,762,034	1,936,486
Net assets released from restriction	28,385,329	(28,385,329)	-	-	-
	59,552,767	(21,469,286)	7,855,633	45,939,114	43,947,966
Expenses and other deductions					
Instructional	21,568,526	-	-	21,568,526	18,786,979
Institutional support	6,843,463	-	-	6,843,463	6,772,157
Student services	1,240,871	-	-	1,240,871	1,167,457
Institutional advancement	2,532,473	-	-	2,532,473	2,225,137
Auxiliary enterprises	5,676,103	-	-	5,676,103	6,799,466
Total operating expenses	37,861,436	-	-	37,861,436	35,751,196
Excess revenue over expenses	21,691,331	(21,469,286)	7,855,633	8,077,678	8,196,770
Extraordinary item					
Gain from change in accounting for post retirement benefits (see note)	-	-	-	-	20,160,363
Change in net assets	21,691,331	(21,469,286)	7,855,633	8,077,678	28,357,133
Net assets at beginning of the year	79,994,875	41,860,090	90,524,241	212,379,206	184,022,073
Net assets at end of the year	$ 101,686,206	$ 20,390,804	$ 98,379,874	$ 220,456,884	$ 212,379,206

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Cash Flows
For the Years Ended July 31, 2011 and 2010

		2011		2010
Cash Flows from Operating Activities				
Change in Net Assets	$	8,077,678	$	28,357,133
Adjustments to reconcile increase in net assets to net cash provided (utilized) by operating activities				
Depreciation		2,450,088		2,524,994
Contributions restricted for endowment and acquisition of long-term assets		(3,270,584)		(5,742,971)
Net realized and unrealized losses (gains) on investments		(4,257,102)		(25,574)
Investment income		(3,316,466)		(6,205,340)
Gain on sales of assets		71,726		(17,098)
Change in value of third party trusts		(5,498,193)		(2,196,239)
Loss on retirement of assets		399,991		-
Decrease (increase) in operating assets:				
Receivables		76,062		333,814
Unconditional promises to give		5,237,068		(2,595,512)
Other assets		25,290		(180,624)
Increase (decrease) in operating liabilities:				
Accounts payable		1,770,220		1,015,564
Other accrued liabilities		189,150		(85,617)
Deferred income		(371,286)		(191,681)
Annuity liability		412,917		1,049,376
Accrued postretirement benefit obligation		-		(20,160,363)
Accrued postemployment benefit obligation		45,729		37,575
Net cash provided (utilized) by operating activities		2,042,288		(4,082,563)
Cash Flows from Investing Activities				
Proceeds from sales and maturities of investments		58,546,876		18,151,830
Purchase of investments		(43,956,547)		(3,740,423)
Proceeds from sales of assets		7,271		25,826
Investment in construction in progress		(20,450,481)		-
Purchase of property, plant and equipment		(5,346,208)		(5,491,066)
Net cash provided (utilized) by investing activities		(11,199,089)		8,946,167
Cash Flows from Financing Activities				
Contributions restricted for endowments and acquisition of long-term assets		3,270,584		5,742,971
Net increase (decrease) in cash and cash equivalents		(5,886,217)		10,606,575
Cash and cash equivalents at beginning of year		23,138,779		12,532,204
Cash and cash equivalents at end of year	$	17,252,562	$	23,138,779

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2011 and 2010

1 - Nature of Organization

Southwestern Baptist Theological Seminary (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Seminary's primary activities are to assist the churches of the Southern Baptist Convention by the biblical education of God-called men and women for their respective ministries, which fulfill the Great Commission and glorify God. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the Southern Baptist Convention ("SBC") and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2 - Summary of Significant Accounting Policies

A summary of the Seminary's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation - The Seminary consolidates the accounts of The Southwestern Baptist Seminary Development Foundation ("Development") and Southwestern Seminary Foundation ("Foundation"), Texas non-profit corporations. Development was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. Foundation was formed in 2005 and became active in 2008. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage the Seminary's investment portfolio. The Foundation's fiscal year end is June 30, 2011 and is consolidated as of that date. Development and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of Development and Foundation, any assets which they may have shall vest in the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting - The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenues and Support - Revenues and support for the Seminary are primarily derived from tuition, fees and contributions from the donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions - The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue recognition - Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An

2 - Summary of Significant Accounting Policies (continued)

Recognition of Donor Restrictions (continued) - allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

Income and investment gains and losses on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets - Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services - The Seminary receives substantial support in the form of donated services. Contributed services are recognized as unrestricted revenues if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 30, 2011 and 2010.

Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Programs - Southwestern Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local Seminary, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional - providing a seminary education for postgraduate degrees in theology, evangelism and missions, Seminary music, and educational ministries.

Institutional support - providing support for the general operations of the Seminary.

Student services - providing placement and employment services to Seminary students.

Institutional advancement - facilitating giving from alumni, corporations and friends of the Seminary.

Auxiliary enterprises - providing housing, dining, recreational and other services to Seminary students.

Cash Equivalents - For purposes of the Statement of Cash Flows, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2011 and 2010

2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable - The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of the semester and are stated at amounts due from students net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the semester are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Students whose accounts are not current are not allowed to enroll in classes. Allowance for doubtful accounts for the years ended July 31, 2011 and 2010 was $398,679 and $362,720, respectively.

Investments - Investments in debt, equity securities and mineral rights are stated at fair value based on an exit price model. The net realized and unrealized gains and losses of investments are reflected in the statement of activities. Investments received by gift or bequest are recorded at fair value at the date of acquisition. If fair value is not determinable at date of acquisition, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

Investments Held in Trust by Third Parties - The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts held by others and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized for the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the statement of activities as a change in value of third-party trusts. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions using a discount rate of 3.8% to 10.6%.

The Seminary is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts (as measured by the fair value of the underlying investments at the Seminary's fiscal year end) are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as endowment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Property, Plant and Equipment - Property, plant and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	3 - 10 years
Improvements other than buildings	10 years
Library books/microfilm	20 years

Impairment of Long-Lived Assets - Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2011 and 2010

2 - Summary of Significant Accounting Policies (continued)

Unconditional Promises to Give - The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectibility and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences - Employees of the Seminary are entitled to paid vacation leave depending upon the length of service and other factors. Compensated absences for vacation leave have not been accrued since they cannot be reasonably estimated. The Seminary's policy is to recognize these costs when actually paid.

3 - Unconditional Promises to Give

Unconditional promises to give at July 31, 2011 and 2010 are restricted for capital expenditures. Scheduled maturities of unconditional promises to give are as follows:

	2011	2010
Less than one year	$ 3,284,081	$ 5,935,601
One to five years	600,000	3,296,667
	3,884,081	9,232,268
Less: unamortized discount at 4.0%	(67,473)	(178,592)
Net unconditional promises to give	$ 3,816,608	$ 9,053,676

The Seminary evaluates the collectability of promises to give and no allowance for doubtful accounts was considered necessary at July 31, 2011 or 2010.

4 - Fund-Raising Activities

Fund-raising expense for the years ended July 31, 2011 and 2010 was $1,290,473 and $1,070,888, respectively. These expenses are included in institutional advancement in the accompanying consolidated statement of activities.

5 - Cooperative Program

The Seminary's primary source of revenue is from the SBC. Churches giving through the cooperative program contribute to the SBC, which passes funds to the Seminary and other institutions. The Seminary received $9,272,738 and $9,439,145 from the SBC for the years ended July 31, 2011 and 2010, respectively.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2011 and 2010

6 - Investments

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following:

	2011	2010
Mutual funds	$ 14,324,792	$ 1,733,922
Common stocks	27,344,645	27,676,337
Closed-end funds	227,824	-
Municipal bonds	-	1,069,040
U. S. Government obligations	-	7,219,465
Mortgage backed securities	-	5,806,814
Money market funds	-	4,716,135
Investments in partnerships	21,054,810	21,902,695
Cash and cash equivalents	250,763	183,907
	$ 63,202,834	$ 70,308,315

Investments in partnerships is comprised of interests in certain limited partnerships and limited liability corporations and is carried at fair value as provided by the investment managers. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material. Certain of the investment in partnerships are restricted as to resale and may require advance noticed for redemption or withdrawal.

The Seminary's investments in partnerships is subject to various risk factors arising from the investment activities of the underlying vehicles of the partnerships, including market, credit, and currency risk. The Seminary's risk of loss as of July 31, 2011, in any of its investment partnerships is limited to the value of the investment at July 31, 2011.

The following schedule summarizes investment return for the years ended July 31:

	2011	2010
Dividend and interest income	$ 3,316,466	$ 6,205,340
Net realized gains (losses) on investments	3,252,809	(1,054,416)
Net unrealized gains (losses) on investments	1,004,293	1,079,992
	$ 7,573,568	$ 6,230,916

Investment fees are netted against dividend and interest income.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2011 and 2010

7 - Property and Equipment

Property and equipment at July 31, 2011 and 2010 consist of the following:

	2011	2010
Land	$ 2,635,079	$ 2,455,712
Buildings	102,159,310	82,173,145
Equipment	13,457,787	13,375,335
Improvements other than buildings	5,467,985	5,425,040
Library books/microfilm	13,302,289	8,512,426
	137,022,450	111,942,158
Less: accumulated depreciation	(49,553,945)	(47,341,266)
Total	$ 87,468,505	$ 64,600,892

Buildings include construction in progress for the new chapel and student housing facilities, totaling $25,255,530 and $5,205,032 at July 31, 2011 and 2010, respectively. Additional commitments remaining under construction contracts total approximately $29,000,000.

8 - Employee Benefits

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary contributes 5% of the participant's salary to the plan with no match of participant's contributions. Beginning in January 2009, the Seminary temporarily suspended contributions to the retirement plan until January 2011 at which time contributions were restored to 5% of base salary. The Seminary's contribution for the years ended July 31, 2011 and 2010 was $374,549 and $0, respectively.

Postretirement and Postemployment Benefits

In years prior to 2010, the Seminary provided post employment and postretirement benefits to retired employees although no formal plan existed. Effective August 1, 2010 the Seminary board of trustees voted to discontinue payment of future postretirement obligations. Accordingly the postretirement liability of $20,160,363 is reflected as an extraordinary item in the 2010 Statement of Activities.

The Seminary continues to provide postemployment benefits to retired employees. The following table sets forth the future obligations at July 31:

	2011	2010
Accumulated benefit costs	$ 400,706	$ 354,977
Employer contributions (benefits paid)	$ 47,729	$ 26,587
Net periodic benefit cost	$ 88,348	$ 64,163
Discount rate assumed	4.00%	5.25%

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2011 and 2010

9 - Net Assets

Unrestricted net assets at July 31, 2011 and 2010 consist of the following:

	2011	2010
For current operations	$ 1,573,112	$ 1,764,044
Designated for specific purposes	2,977,547	3,775,052
Endowment	17,865,994	16,574,183
Invested in property, plant and equipment	79,670,259	58,236,572
Unfunded postemployment benefits	(400,706)	(354,977)
Total	$ 101,686,206	$ 79,994,874

Temporarily restricted net assets consist of the following:

Capital projects	$ 5,247,840	$ 24,063,139
Scholarships	6,013,601	5,662,109
Other	9,129,363	12,134,842
Total	$ 20,390,804	$ 41,860,090

Permanently restricted net assets consist of the following:

Loan funds	$ 1,961,140	$ 1,862,459
Annuity and life income funds	3,380,087	5,284,676
Endowment funds	93,038,647	83,377,106
Total	$ 98,379,874	$ 90,524,241

10 - Endowment Investments

The Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Seminary and the donor-restricted endowment fund, general economic conditions, other resources of the Seminary, and the investment policies of the Seminary.

The following is a summary of endowment assets at July 31:

	2011	2010
Endowment funds (Investments)	$ 56,166,142	$ 60,488,171
Investments held in trust by third parties:		
Endowment funds	47,973,711	43,120,986
Annuity contracts	13,361,563	12,627,376
Annuity liability	(9,445,726)	(9,032,809)
Annuities, net	3,915,837	3,594,567
Endowment assets	$ 108,055,690	$ 107,203,724

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2011 and 2010

10 - Endowment Investments (continued)

Endowment net assets as of July 31, 2011 are composed of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 95,830,194	$ 95,830,194
Board-designated endowment funds	12,225,496	-	-	12,225,496
Net Assets	$ 12,225,496	$ -	$ 95,830,194	$108,055,690

The change in endowment net assets for the year ended July 31, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of period	$ 16,376,014	$ -	$ 90,827,710	$107,203,724
Investment income	5,726,108	1,798,816	48,644	7,573,568
Change in value of third-party trusts	-	-	5,498,193	5,498,193
Total investment income	5,726,108	1,798,816	5,546,837	13,071,761
Transfers	2,853,149	-	(2,853,149)	-
Contributions	-	-	2,308,796	2,308,796
Distributions	(12,729,775)	(1,798,816)	-	(14,528,591)
Net assets, end of period	$ 12,225,496	$ -	$ 95,830,194	$108,055,690

Endowment net assets as of July 31, 2010 are composed of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 90,827,710	$ 90,827,710
Board-designated endowment funds	16,376,014	-	-	16,376,014
Net Assets	$ 16,376,014	$ -	$ 90,827,710	$107,203,724

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2011 and 2010

10 - Endowment Investments (continued)

The change in endowment net assets for the year ended July 31, 2010 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of period	$ 16,761,941	$ 5,249,078	$ 87,178,750	$109,189,769
Investment income	5,106,453	1,040,164	84,298	6,230,915
Change in value of third-party trusts	-	-	2,196,239	2,196,239
Total investment income	5,106,453	1,040,164	2,280,537	8,427,154
Transfers	(249,866)	(53,603)	303,469	-
Contributions	-		1,064,954	1,064,954
Distributions	(5,242,514)	(6,235,639)	-	(11,475,153)
Net assets, end of period	$ 16,376,014	$ -	$ 90,827,710	$107,203,724

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist agencies throughout the United States. These agencies do not report donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Seminary as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

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 UPMIFA requires the Seminary to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no funds with deficiencies for the years ended July 31, 2011 and 2010. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Seminary.

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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500, or other recognized market indexes, while assuming moderate level of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2011 and 2010

10 - Endowment Investments (continued)

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment fund's average fair value based on a 16 quarter moving average of portfolio values, with a budgeting lead of seven months. (That is, the moving average will be determined seven months before the fiscal year in which the funds are to be spent.) In establishing this policy, the Seminary considers the long-term expected return on its endowment. This is consistent with the Seminary's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

11 - Financial Instruments

Fair value hierarchy is used to disclose the inputs to fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Seminary's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Financial instruments by category level at July 31, 2011 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Investments				
Endowment funds	$ 56,166,142	$ 35,111,332	$ -	$ 21,054,810
Other	7,036,692	7,036,692	-	-
Investments Held in Trust by Third Parties				
Endowment funds	47,973,711	47,973,711	-	-
Annuities, net	3,915,837	3,915,837	-	-
Financial instruments	$ 115,092,382	$ 94,037,572	$ -	$ 21,054,810

Financial instruments by category level at July 31, 2010 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Investments				
Endowment funds	$ 60,488,172	$ 32,778,663	$ 5,806,814	$ 21,902,695
Other	9,820,143	9,820,143	-	-
Investments Held in Trust by Third Parties				
Endowment funds	43,120,986	43,120,986	-	-
Annuities, net	3,594,567	3,594,567	-	-
Financial instruments	$ 117,023,868	$ 89,314,359	$ 5,806,814	$ 21,902,695

11 - Financial Instruments (continued)

The fair values for investment in partnerships have been estimated using the net asset value per share of the investments as provided by the fund managers. The change in value of level 3 inputs, which are measured at fair value on a reoccurring basis using significant unobservable inputs, are as follows:

Balance at July 31, 2009	$ -
Purchases	21,600,000
Change in estimated fair value	302,695
Balance at July 31, 2010	$ 21,902,695
Redemptions	(2,104,423)
Change in estimated fair value	1,256,810
Balance at July 31, 2011	$ 21,054,810

12 - Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Foundation currently invests primarily in common stock, mutual funds and partnerships. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

13 - Lease Commitments

The Seminary has non-cancelable operating leases for copier services expiring October 2014. Lease expenses were $259,380 and $274,000 for the years ended July 31, 2011 and 2010, respectively. The Seminary's future minimum lease payments under the lease agreements are as follows for the years ended July 31:

2012	$ 244,640
2013	226,630
2014	79,357
2015	15,664
2016	7,459
Future minimum lease payments	$ 573,750

14 - Accounting for Uncertain Tax Positions

The Seminary is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. Generally accepted accounting principles (GAAP) provide detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. GAAP requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax in 2011 or 2010. Management believes there are no such positions as of December 31, 2011 and, accordingly, no liability has been accrued. The tax years ending in 2009, 2010 and 2011 are open to both federal and state examination.

15 - Split Interest Agreements

The Seminary has entered into several split interest agreements with donors whereby in exchange for the gift from the donor the Seminary is obligated to provide an annuity to the donor or other designated beneficiaries for a specific number of years. Liability under annuity contracts is recognized on the statement of financial position for the estimated present value of expected future payments to income beneficiaries, and an annuity investment is recorded at fair market value for the asset. The discount rates used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines.

16 - Subsequent Events

The Seminary has evaluated subsequent events through October 13, 2011, which is the date the financial statements were available to be issued.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Financial Statements

July 31, 2012 and 2011

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Financial Statements
July 31, 2012 and 2011

TABLE OF CONTENTS

Ratliff & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees,
Southwestern Baptist Theological Seminary:

We have audited the accompanying consolidated statements of financial position of Southwestern Baptist Theological Seminary (the "Seminary") (a Texas not-for-profit corporation) as of July 31, 2012 and the related consolidated statements of activities and cash flows for the year 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 audit. The prior year's summarized comparative information has been derived from the Seminary's 2011 financial statements and, in our report dated October 13, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consolidated 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 our audit provides 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 Southwestern Baptist Theological Seminary as of July 31, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Ratliff & Associates, P.C.

October 5, 2012

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SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statement of Financial Position
July 31, 2012 and 2011

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Cash and cash equivalents	$ 3,133,247	$ 1,610,793	$ -	$ 4,744,040	$ 17,252,562
Accounts receivable, net	325,857	33,960	87,027	446,844	900,954
Unconditional promises to give, net	-	384,219	188,609	572,828	3,816,608
Other assets	3,097,241	-	-	3,097,241	570,022
Investments					
Endowment funds	13,646,275	-	87,621,893	101,268,168	104,139,853
Other	5,377,684	3,911,629	-	9,289,313	7,036,692
Split-interest funds	-	-	12,443,169	12,443,169	13,361,563
	19,023,959	3,911,629	100,065,062	123,000,650	124,538,108
Due from (to) other funds	(14,539,929)	7,928,217	6,611,712	-	-
Property, plant and equipment, net	102,740,501	-	-	102,740,501	87,468,505
Total assets	$ 113,780,876	$ 13,868,818	$ 106,952,410	$ 234,602,104	$ 234,546,759
LIABILITIES AND NET ASSETS					
Accounts payable	$ 2,650,755	$ -	$ -	$ 2,650,755	$ 3,357,156
Accrued salaries and benefits	541,993	-	-	541,993	365,965
Deposits and agency funds	153,190	-	-	153,190	164,446
Deferred income	503,780	-	-	503,780	355,876
Notes payable	6,236,701	-	-	6,236,701	-
Liability under annuity contracts	-	-	9,545,716	9,545,716	9,445,726
Accrued postretirement benefit obligation	940,640	-	-	940,640	811,444
Accrued postemployment benefit obligation	342,016	-	-	342,016	400,706
Total liabilities	11,369,075	-	9,545,716	20,914,791	14,901,319
Net Assets					
Unrestricted	102,411,801			102,411,801	100,874,762
Temporarily restricted		13,868,818		13,868,818	20,390,804
Permanently restricted			97,406,694	97,406,694	98,379,874
Total net assets	102,411,801	13,868,818	97,406,694	213,687,313	219,645,440
Total liabilities and net assets	$ 113,780,876	$ 13,868,818	$ 106,952,410	$ 234,602,104	$ 234,546,759

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Years Ended July 31, 2012 and 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Revenues and other additions					
Tuition and fees	$ 10,507,752	$ -	$ -	$ 10,507,752	$ 10,636,761
Scholarships and fellowships	(3,663,820)	-	-	(3,663,820)	(3,349,920)
Gifts					
Cooperative program	9,391,679	-	-	9,391,679	9,272,738
Student aid	-	2,456,862	-	2,456,862	2,123,710
Endowment	-	-	1,452,332	1,452,332	2,308,796
Other	714,322	1,196,854	-	1,911,176	4,145,430
Change in value of investments	1,360,001	3,629,774	(2,325,522)	2,664,253	7,573,568
Change in value of split interest funds	-	-	(99,990)	(99,990)	5,498,193
Auxiliary enterprises	8,209,097	-	-	8,209,097	5,967,804
Other	883,010	-	-	883,010	1,762,034
Net assets released from restriction	13,805,476	(13,805,476)	-	-	-
	41,207,517	(6,521,986)	(973,180)	33,712,351	45,939,114
Expenses and other deductions					
Instructional	16,374,619	-	-	16,374,619	16,488,997
Institutional support	8,724,147	-	-	8,724,147	8,932,259
Student services	1,087,864	-	-	1,087,864	1,120,033
Plant operations	4,484,490	-	-	4,484,490	5,342,218
Auxiliary enterprises	8,999,358	-	-	8,999,358	5,977,929
Total operating expenses	39,670,478	-	-	39,670,478	37,861,436
Change in net assets	1,537,039	(6,521,986)	(973,180)	(5,958,127)	8,077,678
Net assets at beginning of the year	100,874,762	20,390,804	98,379,874	219,645,440	211,567,762
Net assets at end of the year	$ 102,411,801	$ 13,868,818	$ 97,406,694	$ 213,687,313	$ 219,645,440

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows
For the Years Ended July 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in Net Assets	$ (5,958,127)	$ 8,077,678
Adjustments to reconcile change in net assets to net cash provided (utilized) by operating activities		
Depreciation	2,806,512	2,450,088
Contributions restricted for endowment and acquisition of long-term assets	(2,348,888)	(3,270,584)
Non-cash contributions	(1,164,497)	-
Change in value of swap liability	936,607	-
Net realized and unrealized losses (gains) on investments	4,531,401	(4,257,102)
Investment income	(988,240)	(3,316,466)
Loss (gain) on retirement of assets	(554,250)	471,717
Change in value of split-interest funds	99,990	(5,498,193)
Decrease (increase) in operating assets:		
Receivables	454,110	76,062
Unconditional promises to give	3,243,780	5,237,068
Other assets	(2,285,935)	25,290
Increase (decrease) in operating liabilities:		
Accounts payable	(706,401)	1,770,220
Other accrued liabilities	164,772	189,150
Deferred income	147,904	(371,286)
Annuity liability	-	412,917
Accrued postretirement benefit obligation	129,196	-
Accrued postemployment benefit obligation	(58,690)	45,729
Net cash provided (utilized) by operating activities	(1,550,756)	2,042,288
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	22,431,465	58,546,876
Purchase of investments	(23,272,671)	(43,956,547)
Investment in loan closing costs	(241,284)	-
Proceeds from sales of assets	-	7,271
Investment in construction in progress	(16,035,569)	(20,450,481)
Purchase of property, plant and equipment	(1,488,689)	(5,346,208)
Net cash utilized by investing activities	(18,606,748)	(11,199,089)
Cash Flows from Financing Activities		
Proceeds from bond issue	5,300,094	-
Contributions restricted for endowments and acquisition of long-term assets	2,348,888	3,270,584
Net cash provided by financing activities	7,648,982	3,270,584
Net decrease in cash and cash equivalents	(12,508,522)	(5,886,217)
Cash and cash equivalents at beginning of year	17,252,562	23,138,779
Cash and cash equivalents at end of year	$ 4,744,040	$ 17,252,562

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2012 and 2011

1 - Nature of Organization

Southwestern Baptist Theological Seminary (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Seminary's primary activities are to assist the churches of the Southern Baptist Convention ("SBC") by the biblical education of God-called men and women for their respective ministries, which fulfill the Great Commission and glorify God. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the SBC and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2 - Summary of Significant Accounting Policies

A summary of the Seminary's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation - The Seminary consolidates the accounts of The Southwestern Baptist Seminary Development Foundation ("Development") and Southwestern Seminary Foundation ("Foundation"), Texas non-profit corporations. Development was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. Foundation was formed in 2005 and became active in 2008. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage the Seminary's investment portfolio. The Foundation's fiscal year end is June 30, 2012 and is consolidated as of that date. Development and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of either Development or Foundation, all respective assets they have shall inure to the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting - The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenues and Support - Revenues and support for the Seminary are primarily derived from tuition, fees and contributions from the donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions - The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue recognition - Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An

2 - Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

Investment returns on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets - Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services – Occasionally, the Seminary receives support in the form of donated services. Those services are recognized as unrestricted revenues if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 30, 2012 and 2011.

Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Programs - Southwestern Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional - providing a biblically-based education for both undergraduate and postgraduate degrees in theology, evangelism and missions, church and family ministries, and church music

Institutional support - providing support for the general operations

Student services - providing placement and employment services to students

Plant operations - providing for the maintenance and care of facilities, grounds, and equipment

Auxiliary enterprises - providing housing, dining, recreational and other services to students and staff

Cash and Cash Equivalents - For purposes of financial reporting, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2012 and 2011

2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable - The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of each term. Amounts are reported net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the term are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Students whose accounts are not current are not allowed to enroll in future classes. Allowance for doubtful accounts for the years ended July 31, 2012 and 2011 was \$125,000 and \$398,679, respectively.

Investments - Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses of investments are reflected in the Statement of Activities. Investments received by gift or bequest are recorded at fair value at the date of effective receipt. If fair value is not determinable at date of effective receipt, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

The Seminary is the beneficiary of certain perpetual trusts held and administered by third parties. Distributions from the trusts are recorded as endowment income and the carrying value of the investments is the current market value of underlying assets.

Split-Interest Agreements - The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts held by others and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized for the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the Statement of Activities as a change in value of split-interest agreements. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions used by trustees of the agreements.

Other assets - Other assets include current assets that will be expensed within one year. For the year ended July 31, 2012, other assets include \$2,466,822 of costs prepaid for the Dead Sea Scroll Exhibit to be expensed during the exhibit period from August 2012 through January 2013.

Property, Plant and Equipment - Property, plant and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than \$3,000. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	3 - 10 years
Improvements other than buildings	10 years

Impairment of Long-Lived Assets - Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2012 and 2011

2 - Summary of Significant Accounting Policies (continued)

Advertising - The Seminary uses advertising to promote its major programs to the general public. The costs of advertising are expensed as incurred. Advertising expense was $464,470 and $317,519 for the years ended July 31, 2012 and 2011, respectively.

Unconditional Promises to Give - The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectability and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences - Employees of the Seminary are entitled to paid vacation leave depending upon the length of service and other factors. Compensated absences for vacation leave have not been accrued since they cannot be reasonably estimated. The Seminary's policy is to recognize these costs when actually paid.

Interest Rate Swap Agreement - The Seminary uses a derivative to manage risks related to interest rate movements. The Seminary's interest-rate swap contracts are reported at fair value. The change in the swap contract's fair value is reported as a gain or loss in the Statement of Activities. The Seminary's risk management strategy is to stabilize cash flow requirements by maintaining a swap contract which effectively converts variable-rate debt to a fixed rate.

3 - Unconditional Promises to Give

Scheduled maturities of unconditional promises to give are as follows:

	2012	2011
Less than one year	$ 300,000	$ 3,284,081
One to five years	300,000	600,000
	600,000	3,884,081
Less: unamortized discount at 4.0%	(27,172)	(67,473)
Net unconditional promises to give	$ 572,828	$ 3,816,608

The Seminary evaluates the collectability of promises to give and no allowance for doubtful accounts was considered necessary at July 31, 2012 or 2011.

4 - Fund-Raising Activities

Fund-raising expense for the years ended July 31, 2012 and 2011 was $1,270,702.94 and $1,290,473, respectively. These expenses are included in institutional support in the accompanying consolidated Statement of Activities.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2012 and 2011

5 - Cooperative Program

One significant source of Seminary revenue is the Cooperative Program of the SBC. Churches participating in the Cooperative Program contribute to the SBC, which passes funds (according to an allocation formula) to the Seminary and other entities. The Seminary received $9,391,679 and $9,272,738 from the SBC for the years ended July 31, 2012 and 2011, respectively.

6 - Investments

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following:

	2012	2011
Mutual funds	$ 79,128,230	$ 75,660,066
Common stocks	25,177,698	27,344,645
Closed-end funds	207,649	227,824
Investments in partnerships	16,739,266	21,054,810
Cash and cash equivalents	1,747,807	250,763
	$ 123,000,650	$ 124,538,108

The "investments in partnerships" category is comprised of interests in certain limited partnerships and limited liability corporations and is carried at fair value as provided by the investment managers. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material. Certain partnership agreements are restricted as to resale and may require advance noticed for redemption or withdrawal.

The Seminary's investments in partnerships is subject to various risk factors arising from the investment activities of the underlying instruments of the partnerships, including market, credit, and currency risk. The Seminary's risk of loss as of July 31, 2012 and 2011, in any of its investment partnerships is limited to the value of the investment at July 31, 2012 or 2011.

The following schedule details investment return for the years ended July 31:

	2012	2011
Dividend and interest income	$ 988,420	$ 3,316,466
Net realized gains on investments	2,320,383	3,252,809
Net unrealized gains (losses) on investments	(644,550)	1,004,293
	$ 2,664,253	$ 7,573,568

Investment fees are netted against dividend and interest income.

7 - Property and Equipment

Property and equipment at July 31, 2012 and 2011 consist of the following:

	2012	2011
Land	$ 2,772,891	$ 2,635,079
Buildings	114,922,235	102,159,310
Equipment	14,898,125	13,457,787
Improvements other than buildings	6,077,448	5,467,985
Library books/microfilm/antiquities	13,572,601	13,302,289
	152,243,300	137,022,450
Less: accumulated depreciation	(49,502,799)	(49,553,945)
Total	$ 102,740,501	$ 87,468,505

Buildings include construction in progress for the new chapel and student housing facilities, totaling $7,821,177 and $25,255,530 at July 31, 2012 and 2011, respectively. The Seminary capitalizes interest incurred during construction and during 2012 approximated $17,000. Additional commitments remaining under construction contracts total approximately $15,000,000.

8 - Employee Benefits

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. Beginning in January 2009, the Seminary temporarily suspended contributions to the retirement plan until January 2011 at which time contributions were restored to 5% of base salary. In January 2012, the contribution was increased to 7% of base salary, along with a 1% match of employee contribution. The Seminary's contribution for the years ended July 31, 2012 and 2011 was $878,272 and $374,549, respectively.

Postretirement and Postemployment Benefits

The Seminary provides postemployment benefits to retired employees. The following table sets forth the future obligations at July 31:

	2012	2011
Accumulated benefit costs	$ 342,016	$ 400,706
Employer contributions (benefits paid)	$ 41,407	$ 47,729
Net periodic benefit cost (income)	$ (17,283)	$ 88,348
Discount rate assumed	2.60%	4.00%

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2012 and 2011

8 – Employee Benefits (continued)

Postretirement and Postemployment Benefits (continued)

The Seminary provides postretirement life insurance benefits to retired employees. The following table sets forth the future obligations at July 31:

	2012	2011
Accumulated benefit costs	$ 940,640	$ 811,444
Employer contributions (benefits paid)	$ 57,410	$ -
Net periodic benefit cost	$ 88,348	$ -
Discount rate assumed	3.05%	4.50%

The Seminary cancelled its postretirement health coverage in 2010. The postretirement plan included a life insurance component which was not cancelled; however, the life liability was written off along with the health liability. The financial statements include a correction of a prior period error to restate the financial statements of 2010 and reflect the liability for postretirement benefits of $811,444 at July 31, 2011.

9 - Net Assets

Unrestricted net assets at July 31, 2012 and 2011 consist of the following:

	2012	2011
For current operations	$ (6,696,902)	$ 4,550,659
Notes payable	(5,995,417)	-
Endowment	13,646,275	17,865,994
Invested in property, plant and equipment	102,740,501	79,670,259
Unfunded postretirement benefits	(940,640)	(811,444)
Unfunded postemployment benefits	(342,016)	(400,706)
Total	$ 102,411,801	$ 100,874,762

Temporarily restricted net assets consist of the following:

Capital projects	$ 1,375,006	$ 5,247,840
Scholarships	6,404,776	6,013,601
Other	6,089,036	9,129,363
Total	$ 13,868,818	$ 20,390,804

Permanently restricted net assets consist of the following:

Loan funds	$ 1,911,396	$ 1,961,140
Annuity and life income funds	2,852,166	3,380,087
Endowment funds	92,643,132	93,038,647
Total	$ 97,406,694	$ 98,379,874

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2012 and 2011

10 - Endowment Investments

The Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Seminary and the donor-restricted endowment fund, general economic conditions, other resources of the Seminary, and the investment policies of the Seminary.

	2012	2011
Endowment funds	$ 123,000,650	$ 117,501,416
Less: Annuity liability	(9,545,716)	(9,445,726)
Endowment assets (net)	$ 113,454,934	$ 108,055,690

Endowment net assets as of July 31, 2012 are composed of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 97,406,694	$ 97,406,694
Board-designated endowment funds	16,048,240	-	-	16,048,240
Net Assets	$ 16,048,240	$ -	$ 97,406,694	$113,454,934

The change in endowment net assets for the year ended July 31, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of period	$ 9,675,816	$ -	$ 98,379,874	$108,055,690
Investment income (loss)	1,360,001	3,629,774	(2,325,522)	2,664,253
Change in value of third-party trusts	-	-	(99,990)	(99,990)
Total investment income	1,360,001	3,629,774	(2,425,512)	2,564,263
Transfers	3,629,774	(3,629,774)	-	-
Contributions	1,382,659	-	1,452,332	2,834,981
Net assets, end of period	$ 16,048,240	$ -	$ 97,406,694	$113,454,934

Endowment net assets as of July 31, 2011 are composed of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 98,379,874	$ 98,379,874
Board-designated endowment funds	9,675,816	-	-	9,675,816
Net Assets	$ 9,675,816	$ -	$ 98,379,874	$ 108,055,690

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2012 and 2011

10 - Endowment Investments (continued)

The change in endowment net assets for the year ended July 31, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of period	$ 16,679,483	$ -	$ 90,524,241	$107,203,724
Investment income	5,726,108	1,798,816	48,644	7,573,568
Change in value of third-party trusts	-	-	5,498,193	5,498,193
Total investment income	5,726,108	1,798,816	5,546,837	13,071,761
Contributions	-	-	2,308,796	2,308,796
Distributions	(12,729,775)	(1,798,816)	-	(14,528,591)
Net assets, end of period	$ 9,675,816	$ -	$ 98,379,874	$108,055,690

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist agencies throughout the United States. These agencies do not report donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Seminary as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

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 UPMIFA requires the Seminary to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no funds with deficiencies for the years ended July 31, 2012 and 2011. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Seminary.

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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500, or other recognized market indexes, while assuming moderate level of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2012 and 2011

10 - Endowment Investments (continued)

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment fund's average fair value based on a 16 quarter moving average of portfolio values, with a budgeting lead of seven months. (That is, the moving average will be determined seven months before the fiscal year in which the funds are to be spent.) In establishing this policy, the Seminary considers the long-term expected return on its endowment. This is consistent with the Seminary's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

11 - Fair Value Measurements

Fair value hierarchy is used to disclose the inputs to fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Seminary's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Financial instruments by category level at July 31, 2012 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Investments				
Endowment funds	$ 101,268,168	$ 84,528,902	$ 3,307,531	$ 13,431,735
Other	9,289,313	9,289,313	-	-
Annuities, net	2,897,453	2,897,453	-	-
Financial instruments	$ 113,454,934	$ 96,715,668	$ 3,307,531	$ 13,431,735

Financial instruments by category level at July 31, 2011 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Investments				
Endowment funds	$ 104,139,853	$ 83,085,043	$ 3,323,936	$ 17,730,874
Other	7,036,692	7,036,692	-	-
Annuities, net	3,915,837	3,915,837	-	-
Financial instruments	$ 115,092,382	$ 94,037,572	$ 3,323,936	$ 17,730,874

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2012 and 2011

11 - Fair Value Measurements (continued)

Fair value for money market funds, equities, mutual funds, and closed-end funds are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair values for investment in partnerships have been estimated using the net asset value per share of the investments as provided by the fund managers.

The change in value of level 3 inputs, which are measured at fair value on a reoccurring basis using significant unobservable inputs, are as follows:

Balance at July 31, 2010	$ 17,535,586
Redemptions	(996,757)
Change in estimated fair value	1,192,045
Balance at July 31, 2011	$ 17,730,874
Redemptions	(3,847,457)
Change in estimated fair value	(451,682)
Balance at July 31, 2012	$ 13,431,735

12 - Notes Payable

In fiscal year 2012, the Seminary entered into a financing arrangement ("Loan") with a bank, for the purpose of paying for construction of 252 new student housing units. The Loan is structured with $16,000,000 of tax-exempt bonds and a $7,000,000 taxable loan with the bank. The tax-exempt portion of the Loan is amortized over 20 years, with the final payment due December 15, 2021. Interest calculation is based upon 65% of the 90-day LIBOR rate plus 156 basis points. The 90-day LIBOR rate is 0.35% at July 31, 2012. During the first two years of the Loan, quarterly payments are for interest only, with both principle reduction and interest payments thereafter. The taxable portion of the loan is due December 30, 2016, with interest calculated as 90-day LIBOR rate plus 200 basis points. The Loan is secured with deeds of trust on land and buildings in Fort Worth, Texas.

As of July 31, 2012, the Seminary has borrowed $5,300,094 against the Loan.

Scheduled principle payments for loans outstanding at July 31, 2012 for the following five years ended July 31 and thereafter are as follows:

2013	$ -
2014	303,855
2015	416,026
2016	429,080
2017	440,220
Thereafter	3,710,913
Total	$ 5,300,094

The Seminary entered into an interest rate swap ("Swap") as a hedge against exposure to variances in interest rates applied to the Loan. The differential interest required to be paid or that will be received under this agreement is accrued consistent with the terms of the agreement and is recognized in the Statement of Activities and included in the Notes Payable. The notional principal amount of the swap agreement is $16,000,000. The interest rate for the bonds is the floating weekly interest rate with an average coupon rate projected to be 65% of LIBOR plus 1.56% (currently 1.79%). The agreement effectively fixes the Seminary's interest rate exposure at 3.00% for a period of ten years ending December 2021.

12 - Note Payable (continued)

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the Statement of Financial Position. Accordingly, $936,607, which is representative of the value of the swap agreement at July 31, 2012, is included in the Notes Payable on the Statement of Financial Position. Value has been measured based on estimate of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying the valuation models.

13 - Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Foundation currently invests primarily in common stock, mutual funds and partnerships. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

14 - Lease Commitments

The Seminary has non-cancelable operating leases for copier services expiring October 2014. Lease expenses were $253,341 and $259,380 for the years ended July 31, 2012 and 2011, respectively. The Seminary's future minimum lease payments under the lease agreements are as follows for the years ended July 31:

2013	$ 256,199
2014	251,892
2015	235,854
2016	228,540
2017	96,941
Future minimum lease payments	$ 1,069,426

15 - Accounting for Uncertain Tax Positions

The Seminary is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation, except on net income derived from unrelated business activities. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax in 2012 or 2011 as expenses exceeded revenues. The Seminary believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The tax years ending in 2009, 2010 and 2011 are open to both federal and state examination.

16 - Split Interest Agreements

The Seminary has entered into several split interest agreements with donors whereby in exchange for the gift from the donor the Seminary is obligated to provide an annuity to the donor or other designated beneficiaries for a specific number of years. Liability under annuity contracts is recognized on the Statement of Financial Position for the estimated present value of expected future payments to income beneficiaries, and an annuity investment is recorded at fair market value for the asset. The discount rates used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines.

17 - Subsequent Events

The Seminary has evaluated subsequent events through October 5, 2012, which is the date the financial statements were available to be issued.

18 - Reclassifications

The Seminary has reclassified certain amounts in the 2011 summarized financial statements in order to conform to the classifications presented for 2012.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Financial Statements

July 31, 2013 and 2012

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Financial Statements
July 31, 2013 and 2012

TABLE OF CONTENTS

Ratliff & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees,
Southwestern Baptist Theological Seminary:

We have audited the accompanying consolidated financial statements of Southwestern Baptist Theological Seminary (the "Seminary") (a Texas nonprofit organization) which comprise the Consolidated Statements of Financial Position as of July 31, 2013, and the related Consolidated Statements of Activities and Cash flows for the year then ended, and the related notes to the consolidated financial statements. The prior year's summarized comparative information has been derived from the Seminary's 2012 consolidated financial statements and, in our report dated October 5, 2012, we expressed an unqualified opinion on those consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwestern Baptist Theological Seminary as of July 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Ratliff & Associates, P.C.

October 4, 2013

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SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Financial Position
July 31, 2013 and 2012

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
Cash and cash equivalents	$ 1,650,961	$ 909,428	$ -	$ 2,560,389	$ 4,744,040
Accounts receivable, net	518,658	-	7,133	525,791	446,844
Unconditional promises to give, net	-	192,308	96,154	288,462	572,828
Other assets	861,777	-	-	861,777	3,097,241
Investments					
Endowment funds	14,705,359	-	95,480,143	110,185,502	101,268,168
Split-interest funds	-	-	13,784,277	13,784,277	12,443,169
Subtotal	14,705,359	-	109,264,420	123,969,779	113,711,337
Other investments	6,710,972	1,032,892	-	7,743,864	9,289,313
Total Investments	21,416,331	1,032,892	109,264,420	131,713,643	123,000,650
Due from (to) other funds	(13,525,387)	13,036,829	488,558	-	-
Property, plant and equipment, net	115,959,394	-	-	115,959,394	102,740,501
Total Assets	$ 126,881,734	$ 15,171,457	$ 109,856,265	$ 251,909,456	$ 234,546,759
LIABILITIES AND NET ASSETS					
Accounts payable	$ 2,491,859	$ -	$ -	$ 2,491,859	$ 2,650,755
Accrued salaries and benefits	615,784	-	-	615,784	541,993
Deposits and agency funds	153,890	-	-	153,890	153,190
Deferred income	672,139	-	-	672,139	503,780
Notes payable	20,053,088	-	-	20,053,088	6,236,701
Liability under annuity contracts	-	-	9,708,175	9,708,175	9,545,716
Accrued postretirement benefit obligation	794,892	-	-	794,892	940,640
Accrued postemployment benefit obligation	401,411	-	-	401,411	342,016
Total Liabilities	25,183,063	-	9,708,175	34,891,238	20,914,791
Net Assets					
Unrestricted	101,698,671			101,698,671	102,411,801
Temporarily restricted		15,171,457		15,171,457	13,868,818
Permanently restricted			100,148,090	100,148,090	97,406,694
Total Net Assets	101,698,671	15,171,457	100,148,090	217,018,218	213,687,313
Total Liabilities and Net Assets	$ 126,881,734	$ 15,171,457	$ 109,856,265	$ 251,909,456	$ 234,546,759

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Activities
For the Years Ended July 31, 2013 and 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
Revenues and other additions					
Tuition and fees	$ 10,796,987	$ -	$ -	$ 10,796,987	$ 10,507,752
Scholarships and fellowships	(3,829,786)	-	-	(3,829,786)	(3,663,820)
Gifts					
Cooperative program	8,997,213	-	-	8,997,213	9,391,679
Student aid	-	2,654,473	-	2,654,473	2,456,862
Endowment	-	-	2,219,794	2,219,794	1,452,332
Other	1,058,085	1,572,996	-	2,631,081	1,911,176
Change in value of investments	10,131,627	2,601,575	684,062	13,417,264	2,664,253
Change in value of split interest funds	-	-	(162,460)	(162,460)	(99,990)
Auxiliary enterprises	8,618,161	-	-	8,618,161	8,209,097
Other	583,581	-	-	583,581	883,010
Net assets released from restriction	5,526,405	(5,526,405)	-	-	-
Total Revenues	41,882,273	1,302,639	2,741,396	45,926,308	33,712,351
Expenses and other deductions					
Instructional	15,612,392	-	-	15,612,392	16,374,619
Institutional support	9,821,881	-	-	9,821,881	8,724,147
Student services	1,276,840	-	-	1,276,840	1,087,864
Plant operations	5,522,784	-	-	5,522,784	4,484,490
Auxiliary enterprises	10,361,506	-	-	10,361,506	8,999,358
Total Operating Expenses	42,595,403	-	-	42,595,403	39,670,478
Change in Net Assets	(713,130)	1,302,639	2,741,396	3,330,905	(5,958,127)
Net Assets at Beginning of Year	102,411,801	13,868,818	97,406,694	213,687,313	219,645,440
Net Assets at End of Year	$ 101,698,671	$ 15,171,457	$ 100,148,090	$ 217,018,218	$ 213,687,313

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Cash Flows
For the Years Ended July 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in Net Assets	$ 3,330,905	$ (5,958,127)
Adjustments to reconcile change in net assets to net cash utilized by operating activities:		
Depreciation and amortization	3,263,476	2,806,512
Contributions restricted for endowment and acquisition of long-term assets	(3,309,916)	(2,348,888)
Non-cash contributions	(1,566,931)	(1,164,497)
Change in value of swap liability	(656,092)	936,607
Net realized and unrealized losses (gains) on investments	(9,592,965)	4,531,401
Investment income	(1,842,488)	(988,240)
Loss (gain) on retirement of assets	197,994	(554,250)
Change in value of split-interest funds	427,131	99,990
Decrease (increase) in operating assets:		
Receivables	(78,947)	454,110
Unconditional promises to give	284,366	3,243,780
Other assets	2,211,464	(2,285,935)
Increase (decrease) in operating liabilities:		
Accounts payable	(158,896)	(706,401)
Other accrued liabilities	74,491	164,772
Deferred income	168,359	147,904
Accrued postretirement benefit obligation	(145,748)	129,196
Accrued postemployment benefit obligation	59,395	(58,690)
Net Cash Utilized by Operating Activities	(7,334,402)	(1,550,756)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	22,333,152	22,431,465
Purchase of investments	(18,308,433)	(23,272,671)
Investment in loan closing costs	-	(241,284)
Investment in construction in progress	(15,624,773)	(16,035,569)
Purchase of property, plant and equipment	(1,031,590)	(1,488,689)
Net Cash Utilized by Investing Activities	(12,631,644)	(18,606,748)
Cash Flows from Financing Activities		
Proceeds from bond issue	10,699,906	5,300,094
Proceeds from letter of credit	4,147,573	-
Payments on note payable	(375,000)	-
Contributions restricted for endowments and acquisition of long-term assets	3,309,916	2,348,888
Net Cash Provided by Financing Activities	17,782,395	7,648,982
Net Decrease in Cash and Cash Equivalents	(2,183,651)	(12,508,522)
Cash and Cash Equivalents at Beginning of Year	4,744,040	17,252,562
Cash and Cash Equivalents at End of Year	$ 2,560,389	$ 4,744,040

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2013 and 2012

1 - Nature of Organization

Southwestern Baptist Theological Seminary (the "Seminary") is incorporated under the laws of the State of Texas as a nonprofit religious organization. The Seminary's primary activities are to assist the churches of the Southern Baptist Convention ("SBC") by the biblical education of God-called men and women for their respective ministries, which fulfill the Great Commission and glorify God. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the SBC and is an integrated auxiliary of the SBC. The Seminary is economically dependent on the SBC and others for financial support.

2 - Summary of Significant Accounting Policies

A summary of the Seminary's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation - The Seminary consolidates the accounts of The Southwestern Baptist Theological Seminary Development Foundation ("Development") and Southwestern Seminary Foundation ("Foundation"), Texas nonprofit corporations. Development was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage a portion of the Seminary's endowment portfolio. Development and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of either Development or Foundation, all respective assets they have shall inure to the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting - The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenues and Support - Revenues and support for the Seminary are primarily derived from tuition, fees and contributions from donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions - The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue Recognition - Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

2 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Investment returns on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets - Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services - Occasionally, the Seminary receives support in the form of donated services. Those services are recognized as unrestricted revenues if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the consolidated financial statements for the years ended July 30, 2013 and 2012.

Estimates - The preparation of consolidated financial statements in conformity with United States generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Programs - The Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, in pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary fulfills its mission through the execution of these major programs:

Instructional - providing a biblically-based education for both undergraduate and postgraduate degrees in theology, evangelism and missions, church and family ministries, and church music

Institutional support - providing support for general operations

Student services - providing placement and employment services to students

Plant operations - providing for maintenance and care of facilities, grounds, and equipment

Auxiliary enterprises - providing housing, dining, recreational and other services to students and staff

Cash and Cash Equivalents - For purposes of financial reporting, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2013 and 2012

2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable - The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of each term. Amounts are reported net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the term are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Typically, students whose accounts are not current are not allowed to enroll in future classes. Allowance for doubtful accounts for the years ended July 31, 2013 and 2012, was $230,095 and $125,000, respectively.

Investments - Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses of investments are reflected in the Consolidated Statements of Activities. Investments received by gift or bequest are recorded at fair value at the date of effective receipt. If fair value is not determinable at date of effective receipt, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

The Seminary is the beneficiary of certain perpetual trusts held and administered by third parties. Distributions from the trusts are recorded as endowment income and the carrying value of the investments is the current market value of underlying assets.

Split-Interest Funds - The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts held by others and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized at the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the Consolidated Statements of Activities as a change in value of split-interest funds. Liabilities under annuity contracts are calculated based upon current actuarial assumptions used by trustees of the agreements. The discount rates used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines.

Other Assets - Other assets include current assets that will be expensed within one year. For the year ended July 31, 2012, other assets included $2,466,822 that were expensed during fiscal year 2013.

Property, Plant and Equipment - Property, plant and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	5 - 10 years
Improvements other than buildings	30 years

Impairment of Long-Lived Assets - Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2013 and 2012

2 - Summary of Significant Accounting Policies (continued)

Advertising - The Seminary uses advertising to promote its major programs to the general public. The costs of advertising are expensed as incurred. Advertising expense was $1,372,611 and $464,470 for the years ended July 31, 2013 and 2012, respectively.

Unconditional Promises to Give - The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectability and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences - Employees of the Seminary are entitled to paid vacation leave depending upon their length of service and other factors. Compensated absences for vacation leave have not been accrued since they cannot be reasonably estimated. The Seminary's policy is to recognize these costs when actually paid.

Interest Rate Swap Agreement - The Seminary uses a derivative to manage risks related to interest rate movements. The Seminary's interest rate swap contract ("swap") is reported at fair value. The Seminary's risk management strategy is to stabilize cash flow requirements by maintaining a swap contract which effectively converts variable-rate debt to a fixed rate. The change in the swap contract's fair value is reported as a gain or loss in the Consolidated Statements of Activities.

3 - Unconditional Promises to Give

Scheduled maturities of unconditional promises to give are as follows:

	2013	2012
Less than one year	$ 300,000	$ 307,000
One to five years	-	300,000
	300,000	607,000
Less: unamortized discount at 4.0%	(11,538)	(34,172)
Net unconditional promises to give	$ 288,462	$ 572,828

The Seminary evaluates the collectability of promises to give, and no allowance for doubtful accounts was considered necessary at July 31, 2013 or 2012.

4 - Fund-Raising Activities

Fund-raising expense for the years ended July 31, 2013 and 2012, was $1,351,339 and $1,270,702, respectively. These expenses are included in institutional support in the accompanying Consolidated Statements of Activities.

5 - Cooperative Program

A significant source of Seminary revenue is the Cooperative Program of the SBC. Churches participating in the Cooperative Program contribute to the SBC, which passes funds (according to an allocation formula) to the Seminary and other entities. The Seminary received $8,997,213 and $9,391,679 from the SBC for the years ended July 31, 2013 and 2012, respectively.

Distributions by state, as provided by the Executive Committee of the Southern Baptist Convention for years ended July 31 are as follows:

	2013	2012
Alabama	$ 829,549	$ 870,884
Alaska	10,737	10,756
Arizona	38,385	39,164
Arkansas	422,385	425,251
California	97,717	104,338
Colorado	25,217	28,754
Dakota	2,210	2,185
District of Columbia	1,542	1,628
Florida	595,087	626,968
Georgia	776,180	952,113
Hawaii Pacific	18,440	17,870
Illinois	123,084	116,672
Indiana	39,955	45,276
Iowa	4,577	4,728
Kansas-Nebraska	29,836	30,184
Kentucky	456,949	464,781
Louisiana	372,059	386,123
Maryland-Delaware	88,196	87,660
Michigan	12,872	15,460
Minnesota-Wisconsin	3,205	3,093
Mississippi	560,260	558,610
Missouri	257,914	271,687
Montana	5,158	5,099
Nevada	12,675	10,711
New England	4,777	4,233
New Mexico	42,731	45,889
New York	9,101	10,224
North Carolina	490,984	505,953
Northwest	33,349	33,012
Ohio	86,098	83,075
Oklahoma	560,057	499,668
Pennsylvania-South Jersey	9,902	9,935
Puerto Rico/U.S. Virgin Islands	229	242
South Carolina	540,369	565,088
Tennessee	675,074	718,417
Texas-BGCT	529,888	558,956
Texas-SBTC	708,109	708,351
Utah-Idaho	7,104	8,361
Virginia-BGAV	74,399	84,580

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2013 and 2012

5 - Cooperative Program (continued)

Virginia-SBCV	190,072	198,027
West Virginia	21,868	22,329
Wyoming	6,077	7,059
	8,774,377	9,143,394
Churches and individuals	222,836	248,285
Total Cooperative Program Allocation	$ 8,997,213	$ 9,391,679

6 - Investments

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Consolidated Statements of Activities. Investments consist of the following:

	2013	2012
Mutual funds	$ 88,576,419	$ 79,128,230
Common stocks	23,774,263	25,177,698
Closed-end funds	1,832,150	207,649
Investments in partnerships	13,765,693	16,739,266
Cash and cash equivalents	3,557,229	1,747,807
Other	207,889	-
Total	$ 131,713,643	$ 123,000,650

The "Investments in partnerships" category is comprised of interests in certain limited partnerships and limited liability corporations and is carried at fair value as provided by the investment managers. The amounts realized upon disposition of these investments may differ from the value reflected in the consolidated financial statements and the differences could be material. Certain partnership agreements are restricted as to resale and may require advance notice for redemption or withdrawal. These investments are subject to various risk factors arising from the investment activities of the underlying instruments of the partnerships, including market, credit, and currency risk. The Seminary's risk of loss as of July 31, 2013 and 2012, in any of its investment partnerships is limited to the value of the investment at July 31, 2013 or 2012.

The following schedule details investment return for the years ended July 31:

	2013	2012
Dividend and interest income, net of fees	$ 1,842,488	$ 988,420
Net realized gains on investments	1,368,972	2,320,383
Net unrealized gains (losses) on investments	10,205,804	(644,550)
Total	$ 13,417,264	$ 2,664,253

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2013 and 2012

7 - Property and Equipment

Property and equipment at July 31, 2013 and 2012, consist of the following:

	2013	2012
Land	$ 2,837,827	$ 2,772,891
Buildings	129,495,784	114,922,235
Equipment	13,997,500	14,898,125
Improvements other than buildings	6,142,870	6,077,448
Library books/microfilm/antiquities	13,703,220	13,572,601
	166,177,201	152,243,300
Less: accumulated depreciation	(50,217,807)	(49,502,799)
Total	$ 115,959,394	$ 102,740,501

Buildings include construction in progress for student housing facilities, totaling $7,157,449 and $7,821,177 at July 31, 2013 and 2012, respectively. The Seminary capitalizes interest incurred during construction, which amounted to $159,486 and $17,000 during 2013 and 2012, respectively. Additional scope remaining under construction contracts total approximately $900,000 at July 31, 2013.

8 - Employee Benefits

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary's contribution for the years ended July 31, 2013 and 2012, was $1,013,070 and $878,272, respectively.

Postretirement and Postemployment Benefits

The Seminary provides postemployment benefits to retired employees. The following table sets forth future obligations at July 31:

	2013	2012
Accumulated benefit costs	$ 401,411	$ 342,016
Employer contributions	$ 39,655	$ 41,407
Net periodic benefit cost (income)	$ 99,050	$ (17,283)
Discount rate assumed	3.45%	2.60%

The Seminary provides postretirement life insurance benefits to retired employees. The following table sets forth future obligations at July 31:

	2013	2012
Accumulated benefit costs	$ 794,892	$ 940,640
Employer contributions	$ 58,253	$ 57,410
Net periodic benefit cost	$ 41,623	$ 88,348
Discount rate assumed	4.10%	3.05%

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2013 and 2012

9 - Net Assets

Net assets at July 31:

	2013	2012
Unrestricted net assets consist of the following:		
For current operations	$ (7,716,691)	$ (6,696,902)
Notes payable	(20,053,088)	(5,995,417)
Endowment	14,705,359	13,646,275
Invested in property, plant and equipment	115,959,394	102,740,501
Unfunded postretirement benefits	(794,892)	(940,640)
Unfunded postemployment benefits	(401,411)	(342,016)
Total	$ 101,698,671	$102,411,801
Temporarily restricted net assets consist of the following:		
Capital projects	$ 4,341,631	$ 1,375,006
Scholarships	8,043,924	6,404,776
Other	2,785,902	6,089,036
Total	$ 15,171,457	$ 13,868,818
Permanently restricted net assets consist of the following:		
Loan funds	$ 591,845	$ 1,911,396
Annuity and life income funds	4,076,102	2,852,166
Endowment funds	95,480,143	92,643,132
Total	$ 100,148,090	$ 97,406,694

Net assets released during the year ended July 31, 2013, are for the following purposes:

Scholarships	$ 3,829,786
Capital projects	875,337
Other	821,282
Total	$ 5,526,405

10 - Endowment Investments

The Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Seminary and the donor-restricted endowment fund, general economic conditions, other resources of the Seminary, and the investment policies of the Seminary.

	2013	2012
Endowment funds	$ 123,969,779	$ 113,711,337
Less: Annuity liability	(9,708,175)	(9,545,716)
Endowment assets (net)	$ 114,261,604	$ 104,165,621

Endowment net assets as of July 31, 2013, are composed of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 99,556,245	$ 99,556,245
Board-designated endowment funds	14,705,359	-	-	14,705,359
Net Assets	$ 14,705,359	$ -	$ 99,556,245	$ 114,261,604

The change in endowment net assets for the year ended July 31, 2013, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of period	$ 7,350,772	$ -	$ 96,814,849	$ 104,165,621
Investment income	7,354,587	-	684,062	8,038,649
Change in value of third-party trusts	-	-	(162,460)	(162,460)
Total investment income	7,354,587	-	521,602	7,876,189
Contributions	-	-	2,219,794	2,219,794
Net assets, end of period	$ 14,705,359	$ -	$ 99,556,245	$ 114,261,604

Endowment net assets as of July 31, 2012, are composed of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 96,814,849	$ 96,814,849
Board-designated endowment funds	7,350,772	-	-	7,350,772
Net Assets	$ 7,350,772	$ -	$ 96,814,849	$104,165,621

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements (Continued)
July 31, 2013 and 2012

10 - Endowment Investments (continued)

The change in endowment net assets for the year ended July 31, 2012, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of period	$ 9,675,815	$ -	$ 98,379,874	$108,055,689
Investment loss	(2,325,043)	-	(2,917,367)	(5,242,410)
Change in value of third-party trusts	-	-	(99,990)	(99,990)
Total investment loss	(2,325,043)	-	(3,017,357)	(5,342,400)
Contributions	-	-	1,452,332	1,452,332
Net assets, end of period	$ 7,350,772	$ -	$ 96,814,849	$104,165,621

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist agencies throughout the United States. These agencies do not report donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Seminary as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

Underwater Funds - From time to time, the market value of assets associated with individual donor-restricted endowment funds may fall below the original gift value (become "underwater"). In accordance with GAAP and the Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA"), deficiencies of this nature are reported in unrestricted net assets.

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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce returns that equal inflation plus annual distribution, while assuming moderate level of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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 Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment fund's average fair value based on a 16 quarter moving average of portfolio values, with a budgeting lead of seven months. This is consistent with the Seminary's objective to maintain purchasing power of endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

11 - Fair Value Measurements

Fair value hierarchy is used to disclose the inputs to fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Seminary's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

Financial instruments by input level at July 31, 2013, are as follows:

	Fair Value	Level 1	Level 2	Level 3
Investments				
Endowment funds	$ 110,185,502	$ 96,014,326	$ 1,148,791	$ 13,022,385
Other	7,743,864	7,743,864	-	-
Annuities, net	4,076,102	4,076,102	-	-
Financial instruments	$ 122,005,468	$ 107,834,292	$ 1,148,791	$ 13,022,385

Financial instruments by input level at July 31, 2012, are as follows:

	Fair Value	Level 1	Level 2	Level 3
Investments				
Endowment funds	$ 101,268,168	$ 84,528,902	$ 3,307,531	$ 13,431,735
Other	9,289,313	9,289,313	-	-
Annuities, net	2,897,453	2,897,453	-	-
Financial instruments	$ 113,454,934	$ 96,715,668	$ 3,307,531	$ 13,431,735

Fair value for money market funds, equities, mutual funds, and closed-end funds are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair values for investment in partnerships have been estimated using the net asset value per share of the investments as provided by the fund managers.

The change in value of level 3 inputs, which are measured at fair value on a reoccurring basis using significant unobservable inputs, are as follows:

Balance at July 31, 2011	$ 17,730,874
Redemptions	(3,847,457)
Change in estimated fair value	(451,682)
Balance at July 31, 2012	13,431,735
Redemptions	(4,571,242)
Change in estimated fair value	4,161,892
Balance at July 31, 2013	$ 13,022,385

12 - Notes Payable

In fiscal year 2012, the Seminary entered into a financing arrangement ("Loan") with a bank, for the purpose of paying for construction of 252 student housing units. The Loan is structured with $16,000,000 of tax-exempt bonds and a $7,000,000 taxable loan with the bank. The tax-exempt portion of the Loan is amortized over 20 years, with the final payment due December 15, 2021. Interest calculation is based upon 65% of the 90-day LIBOR rate plus 156 basis points. The 90-day LIBOR rate is 0.27% at July 31, 2013. During the first two years of the Loan, quarterly payments are for interest only, with both principal reduction and interest payments thereafter. The taxable portion of the loan is due December 30, 2016, with interest calculated as 90-day LIBOR rate plus 200 basis points. The Loan is secured with securities and deeds of trust on land and buildings in Fort Worth, Texas.

As of July 31, 2013, the total amount borrowed is $19,772,573. Scheduled principal payments for loans outstanding at July 31, 2013, for the following five years ended July 31 and thereafter are as follows:

2014	$ 647,389
2015	669,212
2016	690,425
2017	7,715,046
2018	739,151
Thereafter	9,311,350
Total	$ 19,772,573

The Seminary entered into an interest rate swap agreement as a hedge against exposure to variances in interest rates applied to the Loan. The differential interest required to be paid or that will be received under this agreement is accrued consistent with the terms of the agreement and is recognized in the Consolidated Statements of Activities. The notional principal amount of the swap agreement is $16,000,000. The interest rate is determined quarterly based upon 65% of the 90-Day LIBOR plus 1.56% (1.74% at July 31, 2013). The agreement effectively fixes the Seminary's interest rate exposure at 3.25% for a period of ten years ending December 2021.

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the Consolidated Statements of Financial Position. Accordingly, liabilities of $280,515 and $936,607, which is representative of the value of the swap agreement at July 31, 2013 and 2012, respectively, is included in Notes Payable on the Consolidated Statements of Financial Position. Value has been measured based on estimate of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying the valuation models.

The Seminary incurred total interest expense for the years ending July 31, 2013 and 2012, of $353,331 and $17,000, respectively, of which $159,486 and $17,000 was capitalized in each respective year.

13 - Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Seminary currently invests primarily in common stock, mutual funds and partnerships. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

14 - Lease Commitments

The Seminary has non-cancelable operating leases for various office equipment expiring in 2017. Lease expenses were $264,274 and $253,341 for the years ended July 31, 2013 and 2012, respectively. The Seminary's future minimum lease payments under the lease agreements are as follows for the years ended July 31:

2014	$ 253,329
2015	234,923
2016	225,812
2017	93,766
Future minimum lease payments	$ 807,830

15 - Accounting for Uncertain Tax Positions

The Seminary is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation, except on net income derived from unrelated business activities. For the years ended July 31, 2013 and 2012, the Seminary has not conducted unrelated business activities that are material to the financial statements taken as a whole. Accordingly, no provision for income taxes is included in the consolidated financial statements. The Seminary believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The tax years ending in 2010, 2011 and 2012 are open to both federal and state examination.

16 - Contingency

The Tarrant County Appraisal District has assessed property taxes of approximately $440,000 on certain Seminary properties. Management is contesting these assessments vigorously through its legal counsel and believes it is more likely than not that it will be able to achieve a favorable determination that these properties are in fact exempt from property taxes. Accordingly, no liability is recorded for these tax assessments.

17 - Subsequent Events

The Seminary has evaluated subsequent events through October 4, 2013, which is the date the consolidated financial statements were available to be issued.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Fort Worth, Texas

Consolidated Financial Statements

July 31, 2014 and 2013

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Financial Statements
July 31, 2014 and 2013

TABLE OF CONTENTS

Ratliff & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees,
Southwestern Baptist Theological Seminary

We have audited the accompanying consolidated financial statements of Southwestern Baptist Theological Seminary (the "Seminary"), a Texas nonprofit organization, which comprise the Consolidated Statements of Financial Position as of July 31, 2014, and the related Consolidated Statements of Activities and Cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwestern Baptist Theological Seminary as of July 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Seminary's 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 3, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ratliff & Associates, P.C.

October 6, 2014

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SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Financial Position
July 31, 2014 and 2013

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Cash and cash equivalents	$ 3,086,712	$ 226,143	$ -	$ 3,312,855	$ 2,560,389
Accounts receivable, net	643,611	-	7,132	650,743	525,791
Unconditional promises to give, net	-	3,809,266	309,717	4,118,983	288,462
Other assets	1,158,342	-	-	1,158,342	861,777
Investments					
Endowment funds	17,793,787	-	107,722,340	125,516,127	110,185,502
Split-interest funds	-	-	14,535,057	14,535,057	13,784,277
Subtotal	17,793,787	-	122,257,397	140,051,184	123,969,779
Other	6,588,768	1,191,439	-	7,780,207	7,743,864
	24,382,555	1,191,439	122,257,397	147,831,391	131,713,643
Due from (to) other funds	(15,817,335)	15,311,147	506,188	-	-
Property, plant and equipment, net	115,670,997	-	-	115,670,997	115,959,394
Total assets	$ 129,124,882	$ 20,537,995	$ 123,080,434	$ 272,743,311	$ 251,909,456
LIABILITIES AND NET ASSETS					
Accounts payable	$ 460,567	$ -	$ -	$ 460,567	$ 2,491,859
Accrued salaries and benefits	1,179,176	-	-	1,179,176	615,784
Deposits and agency funds	708,144	-	-	708,144	696,465
Deferred income	249,834	-	-	249,834	129,564
Notes payable	22,805,312	-	-	22,805,312	20,053,088
Liability under annuity contracts	-	-	10,111,895	10,111,895	9,708,175
Accrued postretirement benefit obligation	772,365	-	-	772,365	794,892
Accrued postemployment benefit obligation	461,157	-	-	461,157	401,411
Total liabilities	26,636,555	-	10,111,895	36,748,450	34,891,238
Net Assets					
Unrestricted	102,488,327			102,488,327	101,698,671
Temporarily restricted		20,537,995		20,537,995	15,171,457
Permanently restricted			112,968,539	112,968,539	100,148,090
Total net assets	102,488,327	20,537,995	112,968,539	235,994,861	217,018,218
Total liabilities and net assets	$ 129,124,882	$ 20,537,995	$ 123,080,434	$ 272,743,311	$ 251,909,456

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Activities
For the Years Ended July 31, 2014 and 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Revenues and other additions					
Tuition and fees	$ 11,141,941	$ -	$ -	$ 11,141,941	$ 10,796,987
Scholarships and fellowships	(4,095,633)	-	-	(4,095,633)	(3,829,786)
Gifts					
Cooperative program	8,590,576	-	-	8,590,576	8,997,213
Student aid	-	3,889,302	-	3,889,302	2,654,473
Endowment	-	-	7,544,264	7,544,264	2,219,794
Other	3,410,691	5,421,783	-	8,832,474	2,631,081
Change in value of investments	7,514,579	1,832,108	5,669,923	15,016,610	13,417,264
Change in value of split interest funds	-	-	(393,738)	(393,738)	(162,460)
Auxiliary enterprises	7,150,466	-	-	7,150,466	8,618,161
Other	783,347	-	-	783,347	583,581
Net assets released from restriction	5,776,655	(5,776,655)	-	-	-
	40,272,622	5,366,538	12,820,449	58,459,609	45,926,308
Expenses and other deductions					
Instructional	15,413,702	-	-	15,413,702	15,612,392
Institutional support	9,126,707	-	-	9,126,707	9,821,881
Student services	1,330,770	-	-	1,330,770	1,276,840
Plant operations	6,029,382	-	-	6,029,382	5,522,784
Auxiliary enterprises	7,582,405	-	-	7,582,405	10,361,506
Total operating expenses	39,482,966	-	-	39,482,966	42,595,403
Change in net assets	789,656	5,366,538	12,820,449	18,976,643	3,330,905
Net assets at beginning of the year	101,698,671	15,171,457	100,148,090	217,018,218	213,687,313
Net assets at end of the year	$ 102,488,327	$ 20,537,995	$ 112,968,539	$ 235,994,861	$ 217,018,218

The accompanying notes are an integral part of these financial statements.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Consolidated Statements of Cash Flows
For the Years Ended July 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in Net Assets	$ 18,976,643	$ 3,330,905
Adjustments to reconcile change in net assets to net cash utilized by operating activities		
Depreciation and amortization	3,656,139	3,263,476
Contributions restricted for endowment and acquisition of long-term assets	(8,125,504)	(3,309,916)
Non-cash contributions	(1,573,432)	(1,566,931)
Change in value of swap liability	9,377	(656,092)
Net realized and unrealized gains on investments	(10,411,480)	(9,592,965)
Investment income	(1,549,270)	(1,842,488)
Loss on retirement of assets	-	197,994
Change in value of split-interest funds	780,310	427,131
Decrease (increase) in operating assets:		
Receivables	(124,952)	(78,947)
Unconditional promises to give	(3,830,521)	284,366
Other assets	(320,565)	2,211,464
Increase (decrease) in operating liabilities:		
Accounts payable	(2,031,292)	(158,896)
Other accrued liabilities	575,071	74,491
Deferred income	120,270	168,359
Accrued postretirement benefit obligation	(22,527)	(145,748)
Accrued postemployment benefit obligation	59,746	59,395
Net cash utilized by operating activities	(3,811,987)	(7,334,402)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	25,570,428	22,333,152
Purchase of investments	(29,530,584)	(18,308,433)
Investment in construction in progress	(1,357,883)	(15,624,773)
Purchase of property, plant and equipment	(985,859)	(1,031,590)
Net cash utilized by investing activities	(6,303,898)	(12,631,644)
Cash Flows from Financing Activities		
Proceeds from bond issue	-	10,699,906
Proceeds from letter of credit	3,227,427	4,147,573
Payments on note	(484,580)	(375,000)
Contributions restricted for endowments and acquisition of long-term assets	8,125,504	3,309,916
Net cash provided by financing activities	10,868,351	17,782,395
Net increase (decrease) in cash and cash equivalents	752,466	(2,183,651)
Cash and cash equivalents at beginning of year	2,560,389	4,744,040
Cash and cash equivalents at end of year	$ 3,312,855	$ 2,560,389

The accompanying notes are an integral part of these financial statements.

1 - Nature of Organization

Southwestern Baptist Theological Seminary (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Seminary's primary activities are to assist the churches of the Southern Baptist Convention ("SBC") by the biblical education of God-called men and women for their respective ministries, which fulfill the Great Commission and glorify God. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the SBC and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2 - Summary of Significant Accounting Policies

A summary of the Seminary's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation - The Seminary consolidates the accounts of The Southwestern Baptist Theological Seminary Development Foundation, Inc. ("Development") and Southwestern Seminary Foundation ("Foundation"), Texas non-profit corporations. Development was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. Foundation was formed in 2005 and became active in 2008. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage a portion of the Seminary's endowment portfolio. Development and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of either Development or Foundation, all respective assets they have shall inure to the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting - The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenues and Support - Revenues and support for the Seminary are primarily derived from tuition, fees and contributions from donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions - The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue Recognition - Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

2 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

Investment returns on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets - Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services - Occasionally, the Seminary receives support in the form of donated services. Those services are recognized as unrestricted revenues if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 30, 2014 and 2013.

Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant estimates included in these financial statements are depreciation, the valuation of certain level 3 investments, the interest rate swap agreement, the accrued benefit obligations, and allocation of certain expenses.

Programs - The Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional - providing a biblically-based education for undergraduate, graduate, and postgraduate degrees in theology, evangelism and missions, church and family ministries, and church music

Institutional support - providing support for general operations

Student services - providing campus life activities, placement and employment services to students

Plant operations - providing for maintenance and care of facilities, grounds, and equipment

Auxiliary enterprises - providing housing, dining, recreational and other services to students and staff

Cash and Cash Equivalents - For purposes of financial reporting, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2014 and 2013

2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable - The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of each term. Amounts are reported net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the term are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Typically, students whose accounts are not current are not allowed to enroll in future classes. Allowance for doubtful accounts for the years ended July 31, 2014 and 2013 was $405,000 and $230,095, respectively.

Investments - Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses on investments are reflected in the Statement of Activities. Investments received by gift or bequest are recorded at fair value at the date of effective receipt. If fair value is not determinable at date of effective receipt, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

The Seminary is the beneficiary of certain perpetual trusts held and administered by third parties. Distributions from the trusts are recorded as endowment income and the carrying value of the investments is the current market value of underlying assets.

Split-Interest Agreements - The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized at the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the Statement of Activities as a change in value of split-interest agreements. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions used by trustees of the agreements.

Other Assets - Other assets include notes receivable given by bequest to the Seminary in 2014. The Seminary holds a 50% interest in the total face value of the notes. The Seminary receives monthly payments from the obligors as defined in the original note agreements. The Seminary's share in the face value of the notes receivable at July 31 is as follows:

		2014
Note 1, maturity 01/2027, 0% interest	$	22,500
Note 2, maturity 02/2019, 0% interest		102,000
Note 3, maturity 06/2031, 6% interest		24,967
Note 4, maturity 07/2039, 4% interest		227,863
		377,330
Unamortized discount on notes 1 & 2 at 3.32%		(64,679)
Allowance for uncollectible notes		(88,684)
Notes receivable, net of discount and allowance	$	223,967

Advertising - The Seminary uses advertising to promote its major programs to the general public. The costs of advertising are expensed as incurred. Advertising expense was $329,863 and $1,372,611 for the years ended July 31, 2014 and 2013, respectively.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2014 and 2013

2 - Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment - Property, plant and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	5 - 10 years
Improvements other than buildings	30 years

Impairment of Long-Lived Assets - Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Unconditional Promises to Give - The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectability and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences - Employees of the Seminary are entitled to paid vacation leave depending upon their length of service and other factors. Compensated absences for vacation leave have not been accrued since they cannot be reasonably estimated. The Seminary's policy is to recognize these costs when actually paid.

Interest Rate Swap Agreement - The Seminary uses a derivative to manage risks related to interest rate movements. The Seminary's interest-rate swap contracts are reported at fair value. The change in the swap contract's fair value is reported as a gain or loss in the Statement of Activities. The Seminary's risk management strategy is to stabilize cash flow requirements by maintaining a swap contract which effectively converts variable-rate debt to a fixed rate.

3 - Unconditional Promises to Give

Scheduled maturities of unconditional promises to give at July 31 are as follows:

	2014	2013
Less than one year	$ 2,320,000	$ 300,000
One to five years	2,000,000	-
	4,320,000	300,000
Unamortized discount at 3.32% and 4.0%, respectively	(201,017)	(11,538)
Net unconditional promises to give	$ 4,118,983	$ 288,462

3 - Unconditional Promises to Give (continued)

The Seminary evaluates the collectability of promises to give and no allowance for doubtful accounts was considered necessary at July 31, 2014 or 2013.

4 - Fundraising Activities

Fundraising expense for the years ended July 31, 2014 and 2013, was $1,576,457 and $1,351,339, respectively. These expenses are included in institutional support in the accompanying Statement of Activities.

5 - Cooperative Program

One significant source of Seminary revenue is the Cooperative Program of the SBC. Churches participating in the Cooperative Program contribute to the SBC, which passes funds (according to an allocation formula) to the Seminary and other entities. The Seminary received $8,590,576 and $8,997,213 from the SBC for the years ended July 31, 2014 and 2013, respectively.

Distributions by state, as provided by the Executive Committee of the SBC for years ended July 31 are as follows:

	2014	2013
Alabama	$ 790,930	$ 829,549
Alaska	10,465	10,737
Arizona	36,632	38,385
Arkansas	403,680	422,385
California	95,963	97,717
Colorado	23,166	25,217
Dakota	2,964	2,210
District of Columbia	1,025	1,542
Florida	524,698	595,087
Georgia	752,079	776,180
Hawaii Pacific	15,838	18,440
Illinois	114,633	123,084
Indiana	33,342	39,955
Iowa	4,216	4,577
Kansas-Nebraska	28,070	29,836
Kentucky	449,636	456,949
Louisiana	358,351	372,058
Maryland-Delaware	83,257	88,196
Michigan	15,534	12,872
Minnesota-Wisconsin	3,110	3,205
Mississippi	533,331	560,260
Missouri	251,127	257,914
Montana	5,706	5,158
Nevada	13,647	12,675
New England	4,946	4,777
New Mexico	37,962	42,731
New York	8,882	9,101
North Carolina	484,394	490,984
Northwest	31,070	33,349

5 - Cooperative Program (continued)

	2014	2013
Ohio	78,475	86,098
Oklahoma	473,046	560,057
Pennsylvania-South Jersey	9,506	9,902
Puerto Rico/U.S. Virgin Islands	276	229
South Carolina	519,646	540,369
Tennessee	647,293	675,074
Texas-BGCT	520,815	529,888
Texas-SBTC	691,208	708,109
Utah-Idaho	7,512	7,104
Virginia-BGAV	54,078	74,399
Virginia-SBCV	187,311	190,072
West Virginia	20,933	21,868
Wyoming	5,840	6,077
	8,334,593	8,774,376
Churches and individuals	255,983	222,837
Total Cooperative Program Allocation	$ 8,590,576	$ 8,997,213

6 - Investments

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following:

	2014	2013
Mutual funds	$ 111,377,315	$ 88,576,419
Common stocks	13,608,384	23,774,263
Closed-end funds	1,801,856	1,832,150
Investments in partnerships	13,370,725	13,765,693
Cash and cash equivalents	7,673,111	3,557,229
Other	-	207,889
	$ 147,831,391	$ 131,713,643

The "Investments in partnerships" category is comprised of interests in certain limited partnerships and limited liability corporations and is carried at fair value as provided by the investment managers. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material. Certain partnership agreements are restricted as to resale and may require advance noticed for redemption or withdrawal.

The Seminary's investments in partnerships is subject to various risk factors arising from the investment activities of the underlying instruments of the partnerships, including market, credit, and currency risk. The Seminary's risk of loss as of July 31, 2014 and 2013, in any of its investment partnerships is limited to the value of the investment at July 31, 2014 or 2013.

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2014 and 2013

6 - Investments (continued)

The following schedule details investment return for the years ended July 31:

	2014	2013
Dividend and interest income	$ 3,958,079	$ 1,842,488
Net realized gains on investments	6,069,531	1,368,972
Net unrealized gains on investments	4,989,000	10,205,804
	$ 15,016,610	$ 13,417,264

Investment fees are netted against dividend and interest income.

7 - Property and Equipment

Property and equipment at July 31 consist of the following:

	2014	2013
Land	$ 2,970,331	$ 2,837,827
Buildings	131,588,362	129,495,784
Equipment	14,658,708	13,997,500
Improvements other than buildings	6,185,590	6,142,870
Library books/microfilm/antiquities	13,843,823	13,703,220
	169,246,814	166,177,201
Less: accumulated depreciation	(53,575,817)	(50,217,807)
Total	$ 115,670,997	$ 115,959,394

Buildings include construction in progress for new student housing facilities, totaling $0 and $7,157,449 at July 31, 2014 and 2013, respectively. The Seminary capitalizes interest incurred during construction, which amounted to $0 and $159,486 during 2014 and 2013, respectively.

8 - Employee Benefits

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary's contribution for the years ended July 31, 2014 and 2013, was $1,004,222 and $1,013,070, respectively.

8 - Employee Benefits (continued)

Postretirement and Postemployment Benefits

The Seminary provides postemployment benefits to retired employees. The following table sets forth future obligations at July 31:

	2014	2013
Accumulated benefit costs	$ 461,157	$ 401,411
Employer contributions (benefits paid)	$ 45,193	$ 39,655
Net periodic benefit cost	$ 104,939	$ 99,050
Discount rate assumed	3.60%	3.45%

Postretirement Benefits

The Seminary provides postretirement life insurance benefits to retired employees. The following table sets forth future obligations at July 31:

	2014	2013
Accumulated benefit costs	$ 772,365	$ 794,892
Employer contributions (benefits paid)	$ 48,985	$ 58,253
Net period benefit cost	$ 38,424	$ 41,623
Discount rate assumed	3.70%	4.10%

9 - Net Assets

	2014	2013
Unrestricted net assets consist of the following:		
For current operations	$ (6,937,623)	$ (7,716,691)
Notes payable	(22,805,312)	(20,053,088)
Endowment	17,793,787	14,705,359
Invested in property, plant and equipment	115,670,997	115,959,394
Unfunded postretirement benefits	(772,365)	(794,892)
Unfunded postemployment benefits	(461,157)	(401,411)
Total	$ 102,488,327	$ 101,698,671
Temporarily restricted net assets consist of the following:		
Capital projects	$ 4,570,572	$ 4,341,631
Scholarships	9,507,878	8,043,924
Other	6,459,545	2,785,902
Total	$ 20,537,995	$ 15,171,457

9 - Net Assets (continued)

Permanently restricted net assets consist of the following:

	2014	2013
Loan funds	$ -	$ 591,845
Annuity and life income funds	4,423,162	4,076,102
Endowment funds	107,722,340	95,480,143
Other	823,037	-
Total	$ 112,968,539	$ 100,148,090

Net assets released during the years ended July 31 are for the following purposes:

	2014	2013
Scholarships	$ 4,095,633	$ 3,829,786
Capital projects	686,648	875,337
Other	994,374	821,282
Total	$ 5,776,655	$ 5,526,405

10 - Endowment Investments

The Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, purposes of the Seminary, purpose of the donor-restricted endowment fund, general economic conditions, other resources of the Seminary, and investment policies of the Seminary.

	2014	2013
Endowment funds	$ 140,051,184	$ 123,969,779
Less: annuity liability	(10,111,895)	(9,708,175)
Endowment assets, net	$ 129,939,289	$ 114,261,604

Endowments as of July 31, 2014, are composed of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 112,145,502	$ 112,145,502
Board-designated endowment funds	17,793,787	-	-	17,793,787
Total	$ 17,793,787	$ -	$ 112,145,502	$ 129,939,289

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2014 and 2013

10 - Endowment Investments (continued)

The change in endowments for the year ended July 31, 2014, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of period	$ 14,705,359	$ -	$ 99,556,245	$ 114,261,604
Investment income	3,088,428	-	5,438,731	8,527,159
Change in value of third-party trust	-	-	(393,738)	(393,738)
Total investment income	3,088,428	-	5,044,993	8,133,421
Contributions	-	-	7,544,264	7,544,264
End of period	$ 17,793,787	$ -	$ 112,145,502	$ 129,939,289

Endowments as of July 31, 2013, are composed of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 99,556,245	$ 99,556,245
Board-restricted endowment funds	14,705,359	-	-	14,705,359
Total	$ 14,705,359	$ -	$ 99,556,245	$ 114,261,604

The change in endowments for the year ended July 31, 2013, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of period	$ 7,350,772	$ -	$ 96,814,849	$ 104,165,621
Investment income	7,354,587	-	684,062	8,038,649
Change in value of third-party trust	-	-	(162,460)	(162,460)
Total investment income	7,354,587	-	521,602	7,876,189
Contributions	-	-	2,219,794	2,219,794
End of period	$ 14,705,359	$ -	$ 99,556,245	$ 114,261,604

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist agencies throughout the United States. These agencies do not report donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Seminary as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

10 - Endowment Investments (continued)

Underwater Funds - From time to time, the market value of assets associated with individual donor-restricted endowment funds may fall below the original gift value (become "underwater"). In accordance with GAAP and the Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA"), deficiencies of this nature are reported in unrestricted net assets.

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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce returns that equal inflation plus annual distribution, while assuming moderate levels of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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 Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment fund's average fair value based on a 16 quarter moving average of portfolio values. This is consistent with the Seminary's objective to maintain purchasing power of endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

11 - Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Seminary uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 - Valuations based on inputs, other than quoted prices included in Level 1, which are observable either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair values for money market funds, equities, mutual funds, and closed-end funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

11 - Fair Value Measurements (continued)

Fair values for investment in partnerships have been estimated using the net asset value (NAV) per share of the investments as provided by the fund managers. Individual fund managers rely on a variety of inputs that are available according to the type of investment strategy in use.

Multi-strategy and long/short hedge funds typically utilize the NAV provided by the underlying investee. The Valuation Committee established by each fund manager also takes into account information provided within audited and un-audited financial statements and performance reports of the underlying investee. In addition, third party valuation services, broker quotes, estimates, and other alternative valuation techniques may be utilized by the fund's Valuation Committee.

Structured credit fund portfolio investments are primarily in the form of debt investments that are not publicly traded. The fair value of these securities is not readily determinable. These investments are valued on at least a quarterly basis in accordance with a valuation policy which is, at all times, consistent with accounting principles generally accepted in the United States ("US GAAP"). The Board of Directors or Valuation Committee determines the fair value in good faith based on the input of their Investment Advisor and the respective third-party valuation firms.

Private equity fund fair values are supported by information received from the investee funds such as monthly net asset values, investor reports, and audited financial statements, when available. The fund Valuation Committee may consider other factors, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

Investments by category level at July 31, 2014, are as follows:

	Fair Value	Level 1	Level 2	Level 3
Endowment funds	$ 125,516,127	$ 112,145,402	$ 1,193,160	$ 12,177,565
Other	7,780,207	7,780,207	-	-
Annuities, net	4,423,162	4,423,162	-	-
Total	$ 137,719,496	$ 124,348,771	$ 1,193,160	$ 12,177,565

Investments by category level at July 31, 2013, are as follows:

	Fair Value	Level 1	Level 2	Level 3
Endowment funds	$ 110,185,502	$ 96,014,326	$ 1,148,791	$ 13,022,385
Other	7,743,864	7,743,864	-	-
Annuities, net	4,076,102	4,076,102	-	-
Total	$ 122,005,468	$ 107,834,292	$ 1,148,791	$ 13,022,385

SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY
Notes to Consolidated Financial Statements
July 31, 2014 and 2013

11 - Fair Value Measurements (continued)

The change in value of level 3 inputs, which are measured at fair value on a recurring basis using significant unobservable inputs, are as follows:

Balance at July 31, 2012	$ 13,431,735
Redemptions	(4,571,242)
Subscriptions	2,232,000
Change in estimated fair value	1,929,892
Balance, July 31, 2013	13,022,385
Redemptions	(3,050,000)
Subscriptions	1,468,450
Change in estimated fair value	736,730
Balance, July 31, 2014	$ 12,177,565

12 - Notes Payable

In fiscal year 2012, the Seminary entered into a financing arrangement ("Loan") with a bank, for the purpose of paying for construction of 252 new student housing units. The Loan is structured with $16,000,000 of tax-exempt bonds and a $7,000,000 taxable loan with the bank. The tax-exempt portion of the Loan is amortized over 20 years, with the final payment due December 15, 2021. Interest calculation is based upon 65% of the 90-day LIBOR rate plus 156 basis points. The 90-day LIBOR rate is 0.24% and 0.27% at July 31, 2014 and 2013, respectively. From December 2011 to December 2013, quarterly payments were for interest only, with both principal reduction and interest payments beginning in January 2014. The taxable portion of the loan is due December 30, 2016, with interest calculated as 90-day LIBOR rate plus 200 basis points. The Loan is secured with securities and deeds of trust on land and buildings in Fort Worth, Texas.

Scheduled principal payments and total loans outstanding at July 31, 2014, for the following five years ended July 31 and thereafter are as follows:

2015	$ 663,643
2016	684,680
2017	7,709,095
2018	733,000
2019	757,708
Thereafter	11,967,294
Total scheduled payments	22,515,420
Liability on swap agreement	289,892
Total amount outstanding	$ 22,805,312

The Seminary entered into an interest rate swap as a hedge against exposure to variances in interest rates applied to the Loan. The differential interest required to be paid or that will be received under this agreement is accrued consistent with the terms of the agreement and is recognized in the Statement of Activities and included in the Notes Payable. The notional principal amount of the swap agreement is $16,000,000. The interest rate for the bonds is established quarterly based upon 65% of the 90-Day LIBOR plus 1.56% (1.72% and 1.79% at July 31, 2014 and 2013, respectively). The agreement effectively fixes the Seminary's interest rate exposure at 3.25% for a period of ten years ending December 2021.

12 - Notes Payable (continued)

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the Statement of Financial Position. Accordingly, $289,892 and $280,515, which is representative of the value of the swap agreement at July 31, 2014 and 2013, respectively, is included in Notes Payable on the Statement of Financial Position. Value has been measured based on estimate of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying the valuation models.

The Seminary paid interest for the years ending July 31, 2014 and 2013, of $675,933 and $353,331, respectively, of which $0 and $159,486 was capitalized in each respective year.

13 - Charitable Gift Annuities

The Seminary, through the Foundation, enters into split interest agreements with donors whereby, in exchange for the gift from the donor, the Seminary is obligated to provide an annuity to the donor or other designated beneficiaries during their lifetimes. At July 31, 2014, two annuities are active. The assets and liabilities associated with these annuities are accounted for as indicated in Note 2, Split-Interest Agreements.

14 - Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Foundation currently invests primarily in common stock, mutual funds and partnerships. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

15 - Lease Commitments

The Seminary has non-cancelable operating leases for various office equipment expiring in 2017. Lease expenses were $278,831 and $264,274 for the years ended July 31, 2014 and 2013, respectively. The Seminary's future minimum lease payments under the lease agreements are as follows for the three years ended July 31:

2015	$ 251,907
2016	244,507
2017	108,944
Future minimum lease payments	$ 605,358

16 - Contingency

The Tarrant County Appraisal District has assessed property taxes of approximately $440,000 on certain Seminary properties. Management is contesting these assessments vigorously through its legal counsel and believes it is more likely than not that it will be able to achieve a favorable determination that these properties are, in fact, exempt from property taxes. Accordingly, no liability is recorded for these tax assessments.

17 - Accounting for Uncertain Tax Positions

The Seminary is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation, except on net income derived from unrelated business activities. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax in 2014 or 2013 as expenses exceeded revenues. The Seminary believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Tax returns for the years 2012, 2011 and 2010 are subject to examination by tax authorities, and may change upon examination.

18 - Reclassifications

Certain reclassifications have been made to the 2013 consolidated statement of financial position to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

19 - Subsequent Events

The Seminary has evaluated subsequent events through October 6, 2014, which is the date the financial statements were available to be issued.

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Independent Auditors' Report

To the Board of Trustees
The Southwestern Baptist Theological Seminary
Fort Worth, Texas

We have audited the accompanying consolidated financial statements of The Southwestern Baptist Theological Seminary (a Texas nonprofit corporation) which comprise the consolidated statement of financial position as of July 31, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Southwestern Baptist Theological Seminary, as of July 31, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of The Southwestern Baptist Theological Seminary as of July 31, 2014, were audited by other auditors whose report dated October 6, 2014, expressed an unmodified opinion on those statements.

Guinn Smith & Co. Inc.

Irving, Texas
October 2, 2015

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
July 31, 2015

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:				
Cash and cash equivalents	$ 1,216,673	$ 210,684	$ -	$ 1,427,357
Accounts receivables, net	823,201	-	7,132	830,333
Unconditional promises to give, net	-	9,881,735	-	9,881,735
Other assets	804,938	-	-	804,938
Investments:				
Endowment funds	15,714,372	-	109,133,871	124,848,243
Split-interest funds	-	-	14,561,757	14,561,757
Other investments	11,384,712	6,132,601	-	17,517,313
Total investments	27,099,084	6,132,601	123,695,628	156,927,313
Due from (to) other funds	(19,465,047)	18,945,837	519,210	-
Property, plant, and equipment, net	114,476,106	-	-	114,476,106
Total assets	$124,954,955	$ 35,170,857	$124,221,970	$284,347,782
Liabilities and net assets:				
Liabilities:				
Accounts payable	$ 1,104,956	$ -	$ -	$ 1,104,956
Accrued salaries and benefits	466,306	-	-	466,306
Deposits and agency funds	675,816	-	-	675,816
Deferred income	313,648	-	-	313,648
Notes payable	22,305,052	-	-	22,305,052
Liability under annuity contracts	-	-	10,118,284	10,118,284
Accrued postretirement benefit obligation	965,386	-	-	965,386
Accrued postemployment benefit obligation	644,273	-	-	644,273
Total liabilities	26,475,437	-	10,118,284	36,593,721
Net assets	98,479,518	35,170,857	114,103,686	247,754,061
Total liabilities and net assets	$124,954,955	$ 35,170,857	$124,221,970	$284,347,782

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
July 31, 2014

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:				
Cash and cash equivalents	$ 3,086,712	$ 226,143	$ -	$ 3,312,855
Accounts receivables, net	643,611	-	7,132	650,743
Unconditional promises to give, net	-	3,809,266	309,717	4,118,983
Other assets	1,158,342	-	-	1,158,342
Investments:				
Endowment funds	17,793,787	-	107,722,340	125,516,127
Split-interest funds	-	-	14,535,057	14,535,057
Other investments	6,588,768	1,191,439	-	7,780,207
Total investments	24,382,555	1,191,439	122,257,397	147,831,391
Due from (to) other funds	(15,817,335)	15,311,147	506,188	-
Property, plant, and equipment, net	115,670,997	-	-	115,670,997
Total assets	$129,124,882	$ 20,537,995	$123,080,434	$272,743,311
Liabilities and net assets:				
Liabilities:				
Accounts payable	$ 460,567	$ -	$ -	$ 460,567
Accrued salaries and benefits	1,179,176	-	-	1,179,176
Deposits and agency funds	708,144	-	-	708,144
Deferred income	249,834	-	-	249,834
Notes payable	22,805,312	-	-	22,805,312
Liability under annuity contracts	-	-	10,111,895	10,111,895
Accrued postretirement benefit obligation	772,365	-	-	772,365
Accrued postemployment benefit obligation	461,157	-	-	461,157
Total liabilities	26,636,555	-	10,111,895	36,748,450
Net assets	102,488,327	20,537,995	112,968,539	235,994,861
Total liabilities and net assets	$129,124,882	$ 20,537,995	$123,080,434	$272,743,311

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Year Ended July 31, 2015

	2015			
Changes in net assets:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Tuition and fees	$ 12,275,124	$ -	$ -	$ 12,275,124
Scholarship and fellowships	(4,398,953)	-	-	(4,398,953)
Gifts:				
Cooperative program	8,467,487	-	-	8,467,487
Student aid	-	2,806,455	-	2,806,455
Endowment	-	-	1,703,194	1,703,194
Other	4,322,058	16,862,927	-	21,184,985
Change in value of investments	2,179,961	2,068,331	(561,658)	3,686,634
Change in value of split interest funds	-	-	(6,389)	(6,389)
Auxiliary enterprises	7,422,182	-	-	7,422,182
Other	741,101	-	-	741,101
Net assets released from restriction	7,104,851	(7,104,851)	-	-
Total revenue	$ 38,113,811	$ 14,632,862	$ 1,135,147	$ 53,881,820
Expenses and other deductions:				
Instructional	15,882,872	-	-	15,882,872
Institutional support	9,631,059	-	-	9,631,059
Student services	1,626,785	-	-	1,626,785
Plant operations	7,085,192	-	-	7,085,192
Auxiliary enterprises	7,896,712	-	-	7,896,712
Total operating expenses	42,122,620	-	-	42,122,620
Change in net assets	(4,008,809)	14,632,862	1,135,147	11,759,200
Net assets, beginning of year	102,488,327	20,537,995	112,968,539	235,994,861
Net assets, end of year	$ 98,479,518	$ 35,170,857	$114,103,686	$247,754,061

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Year Ended July 31, 2014

	2014			
Changes in net assets:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Tuition and fees	$ 11,141,941	$ -	$ -	$ 11,141,941
Scholarship and fellowships	(4,095,633)	-	-	(4,095,633)
Gifts:				
Cooperative program	8,590,576	-	-	8,590,576
Student aid	-	3,889,302	-	3,889,302
Endowment	-	-	7,544,264	7,544,264
Other	3,410,691	5,421,783	-	8,832,474
Change in value of investments	7,514,579	1,832,108	5,669,923	15,016,610
Change in value of split interest funds	-	-	(393,738)	(393,738)
Auxiliary enterprises	7,150,466	-	-	7,150,466
Other	783,347	-	-	783,347
Net assets released from restriction	5,776,655	(5,776,655)	-	-
Total revenue	40,272,622	5,366,538	12,820,449	58,459,609
Expenses and other deductions:				
Instructional	15,413,702	-	-	15,413,702
Institutional support	9,126,707	-	-	9,126,707
Student services	1,330,770	-	-	1,330,770
Plant operations	6,029,382	-	-	6,029,382
Auxiliary enterprises	7,582,405	-	-	7,582,405
Total operating expenses	39,482,966	-	-	39,482,966
Change in net assets	789,656	5,366,538	12,820,449	18,976,643
Net assets, beginning of year	101,698,671	15,171,457	100,148,090	217,018,218
Net assets, end of year	$102,488,327	$ 20,537,995	$112,968,539	$235,994,861

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

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

	2015	2014
Change in net assets	$ 11,759,200	$ 18,976,643
Adjustments to reconcile change in net assets to net cash utilized by operating activities:		
Depreciation and amortization	3,668,135	3,656,139
Contributions restricted for endowment and acquisition of long-term assets	(17,729,401)	(8,125,504)
Non-cash contributions	(894,512)	(1,573,432)
Change in value of swap liability	163,383	9,377
Net realized and unrealized gains on investments	1,336,306	(10,411,480)
Investment income	(1,817,113)	(1,549,270)
Change in value of split-interest funds	190,424	780,310
Changes in operating assets and liabilities:		
Receivables	(179,590)	(124,952)
Unconditional promises to give	(5,762,752)	(3,830,521)
Other assets	329,404	(320,565)
Accounts payable	644,389	(2,031,292)
Other accrued expenses	(745,198)	575,071
Deferred income	63,814	120,270
Accrued postretirement benefit obligation	193,021	(22,527)
Accrued postemployment benefit obligation	183,116	59,746
Total adjustments	(20,356,574)	(22,788,630)
Net cash utilized by operating activities	(8,597,374)	(3,811,987)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	13,306,013	25,570,428
Purchase of investments	(21,980,651)	(29,530,584)
Investment in construction in progress	(695,438)	(1,357,883)
Purchase of property, plant and equipment	(983,806)	(985,859)
Net cash utilized by investing activities	(10,353,882)	(6,303,898)
Cash flows from financing activities:		
Proceeds from letter of credit	-	3,227,427
Payment on note	(663,643)	(484,580)
Contribution restricted for endowments and acquisition of long-term assets	17,729,401	8,125,504
Net cash provided by financing activities	17,065,758	10,868,351
Net (decrease) increase in cash and cash equivalents	(1,885,498)	752,466
Cash and cash equivalents, beginning of year	3,312,855	2,560,389
Cash and cash equivalents, end of year	$ 1,427,357	$ 3,312,855

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

1. NATURE OF ORGANIZATION

The Southwestern Baptist Theological Seminary, (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Seminary's primary activities are to assist the churches of the Southern Baptist Convention ("SBC") by the biblical education of God-called men and women for their respective ministries, which fulfill the Great Commission and glorify God. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the SBC and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Seminary consolidates the accounts of The Southwestern Baptist Theological Seminary Development Foundation, Inc. ("Development") and Southwestern Seminary Foundation ("Foundation"), Texas non-profit corporations. Development was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. Foundation was formed in 2005 and became active in 2008. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage a portion of the Seminary's endowment portfolio. Development and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of either Development or Foundation, all respective assets they have shall inure to the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting

The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenue and Support

Revenues and support for the Seminary are primarily derived from tuition, fees and contributions from donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions

The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue Recognition

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

Investment returns on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets

Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services

Occasionally, the Seminary receives support in the form of donated services. Those services are recognized as unrestricted revenues if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 31, 2015 and 2014.

Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant estimates included in these financial statements are depreciation, the valuation of certain level 3 investments, the interest rate swap agreement, the accrued benefit obligations, and allocation of certain expenses.

Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Foundation currently invests primarily in common stock, mutual funds and partnerships. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

Programs

The Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional - providing a biblically-based education for undergraduate, graduate, and postgraduate degrees in theology, evangelism and missions, church and family ministries, and church music

Institutional support - providing support for general operations

Student services - providing campus life activities, placement and employment services to students

Plant operations - providing for maintenance and care of facilities, grounds, and equipment

Auxiliary enterprises - providing housing, dining, recreational and other services to students and staff

Cash and Cash Equivalents

For the purposes of financial reporting, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

Accounts Receivable

The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of each term. Amounts are reported net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the term are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Typically, students whose accounts are not current are not allowed to enroll in future classes. Allowance for doubtful accounts for the years ended July 31, 2015 and 2014 was $390,000 and $405,000, respectively.

Investments

Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses on investments are reflected in the Statement of Activities. Investments received by gift or bequest are recorded at fair value at the date of effective receipt. If fair value is not determinable at date of effective receipt, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

The Seminary is the beneficiary of certain perpetual trusts held and administered by third parties. Distributions from the trusts are recorded as endowment income and the carrying value of the investments is the current market value of underlying assets.

Split-Interest Agreements

The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized at the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the Statement of Activities as a change in value of split-interest agreements. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions used by trustees of the agreements.

Advertising Costs

The Seminary uses advertising to promote its major programs to the general public. The costs of advertising are expensed as incurred. Advertising expense was $299,157 and $329,863 for the years ended July 31, 2015 and 2014, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	5 - 10 years
Improvements other than buildings	30 years

Impairment of Long-lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Unconditional Promises to Give

The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectability and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences

Employees of the Seminary are entitled to paid vacation leave depending upon their length of service and other factors. Compensated absences for vacation leave have not been accrued since they cannot be reasonably estimated. The Seminary's policy is to recognize these costs when actually paid.

Interest Rate Swap Agreement

The Seminary uses a derivative to manage risks related to interest rate movements. The Seminary's interest-rate swap contracts are reported at fair value. The change in the swap contract's fair value is reported as a gain or loss in the Statement of Activities. The Seminary's risk management strategy is to stabilize cash flow requirements by maintaining a swap contract which effectively converts variable-rate debt to a fixed rate.

3. UNCONDITIONAL PROMISES TO GIVE

Scheduled maturities of unconditional promises to give at July 31 are as follows:

	2015	2014
Less than one year	$ 3,718,100	$ 2,320,000
One to five years	6,969,098	2,000,000
Total unconditional promises to give	10,687,198	4,320,000
Unamortized discount at 2.92% and 3.32%, respectively	(805,463)	(201,017)
Net unconditional promises to give	$ 9,881,735	$ 4,118,983

The Seminary evaluates the collectability of promises to give and no allowance for doubtful accounts was considered necessary at July 31, 2015 and 2014.

4. FUNDRAISING ACTIVITIES

Fundraising expense for the years ended July 31, 2015 and 2014, was $1,491,058 and $1,576,457, respectively, These expenses are included in institutional support in the accompanying Statement of Activities.

5. COOPERATIVE PROGRAM

One significant source of Seminary revenue is the Cooperative Program of the SBC. Churches participating in the Cooperative Program contribute to the SBC, which passes funds (according to an allocation formula) to the Seminary and other entities. The Seminary received $8,467,487 and $8,590,576 from the SBC for the years ended July 31, 2015 and 2014, respectively.

Distributions by state, as provided by the Executive Committee of the SBC for years ended July 31 are as follows:

Alabama	$ 775,248	$ 790,930
Alaska	9,937	10,465
Arizona	38,385	36,632
Arkansas	393,456	403,680
California	98,019	95,963

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

	2015	2014
Colorado	24,502	23,166
Dakota	2,964	2,964
District of Columbia	600	1,025
Florida	572,169	524,698
Georgia	766,442	752,079
Hawaii Pacific	14,826	15,838
Illinois	104,274	114,633
Indiana	41,428	33,342
Iowa	8,139	4,216
Kansas-Nebraska	27,585	28,070
Kentucky	446,552	449,636
Louisiana	342,704	358,351
Maryland-Delaware	76,038	83,257
Michigan	15,125	15,534
Minnesota-Wisconsin	3,172	3,110
Mississippi	517,479	533,331
Missouri	259,715	251,127
Montana	6,048	5,706
Nevada	16,790	13,647
New England	5,040	4,946
New Mexico	36,502	37,962
New York	8,865	8,882
North Carolina	473,661	484,394
Northwest	32,586	31,070
Ohio	62,679	78,475
Oklahoma	461,767	473,046
Pennsylvania-South Jersey	9,282	9,506
Puerto Rico/U.S. Virgin Islands	231	276
South Carolina	506,103	519,646
Tennessee	632,622	647,293
Texas-BGCT	485,824	520,815
Texas-SBTC	699,206	691,208
Utah-Idaho	6,080	7,512
Virginia-BGAV	54,145	54,078
Virginia-SBCV	179,704	187,311
West Virginia	19,978	20,933
Wyoming	5,866	5,840
	8,241,738	8,334,593
Churches and individuals	225,749	255,983
Total Cooperative Program Allocation	$ 8,467,487	$ 8,590,576

6. INVESTMENTS

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following:

	2015	2014
Mutual funds	$115,194,600	$111,377,315
Common stocks	11,322,530	13,608,384
Closed-end funds	3,038,004	1,801,856
Investments in partnerships	14,871,673	13,370,725
Cash and cash equivalents	12,500,506	7,673,111
Total investments	$156,927,313	$147,831,391

The "Investments in partnerships" category is comprised of interests in certain limited partnerships and limited liability corporations and is carried at fair value as provided by the investment managers. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material. Certain partnership agreements are restricted as to resale and may require advance notice for redemption or withdrawal.

The Seminary's investments in partnerships is subject to various risk factors arising from the investment activities of the underlying instruments of the partnerships, including market, credit, and currency risk. The Seminary's risk of loss as of July 31, 2015 and 2014, in any of its investment partnerships is limited to the value of the investment at July 31, 2015 and 2014.

The following schedule details investment returns for the years ended July 31:

Dividend and interest income	$ 3,871,661	$ 3,958,079
Net realized gains on investments	1,329,129	6,069,531
Net unrealized (loss) gain on investments	(1,514,156)	4,989,000
Total	$ 3,686,634	$ 15,016,610

Investment fees are netted against dividend and interest income.

7. PROPERTY, PLANT, AND EQUIPMENT

Property and equipment consists of the following at July 31:

	2015	2014
Land	$ 3,740,331	$ 2,970,331
Buildings	132,775,172	131,588,362
Equipment	14,426,869	14,658,708
Improvements other than buildings	6,186,816	6,185,590
Library books/microfilm/antiquities	14,091,685	13,843,823
	171,220,873	169,246,814
Less accumulated depreciation	(56,744,767)	(53,575,817)
Total	$114,476,106	$115,670,997

Buildings include construction in progress for a new facility to house the School of Evangelism & Missions and the College at Southwestern, totaling $1,102,556 at July 31, 2015.

8. EMPLOYEE BENEFITS

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary's contribution for the years ended July 31, 2015 and 2014, was $1,067,899 and $1,004,222, respectively.

Postretirement and Postemployment Benefits

The Seminary provides postemployment benefits to retired employees. The following table sets forth the future obligations at July 31:

Accumulated benefit costs	$ 644,273	$ 461,157
Employer contributions (benefit paid)	50,540	45,193
Net periodic benefit cost	233,656	104,939
Discount rate assumed	3.75%	3.60 %

Postretirement Benefits

The Seminary provides postretirement life insurance benefits to retired employees. The following table sets forth the future obligations at July 31:

Accumulated benefit costs	$ 965,386	$ 772,365
Employer contributions (benefit paid)	52,586	48,985
Net periodic benefit cost	37,929	38,424
Discount rate assumed	3.70%	3.70 %

9. NET ASSETS

	2015	2014
Temporarily restricted net assets consists of the following:		
Capital projects	$ 18,764,085	$ 4,570,572
Scholarships	9,885,747	9,507,878
Other	6,521,025	6,459,545
Total	$ 35,170,857	$ 20,537,995
Permanently restricted net assets consists of the following:		
Annuity and life income funds	$ 4,443,473	$ 4,423,162
Endowment funds	109,133,871	107,722,340
Other	526,342	823,037
Total	$114,103,686	$112,968,539
Net assets released during the years ended July 31 are for the following purposes:		
Scholarships	$ 4,398,653	$ 4,095,633
Capital projects	1,841,155	686,648
Other	865,043	994,374
Total	$ 7,104,851	$ 5,776,655

10. ENDOWMENT INVESTMENTS

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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce returns that equal inflation plus annual distribution, while assuming moderate levels of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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 Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment fund's average fair value based on a 16 quarter moving average of portfolio values. This is consistent with the Seminary's objective to maintain purchasing power of endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist agencies throughout the United States. These agencies do not report donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Seminary as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

Underwater Funds - From time to time, the market value of assets associated with individual donor-restricted endowment funds may fall below the original gift value (become "underwater"). In accordance with GAAP and the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), deficiencies of this nature are reported in unrestricted net assets.

Restrictions - Endowment investments are either permanently restricted or unrestricted. Donor contributions, earnings that are permanently reinvested at donor direction, and earnings from funds held in trust by others are treated as permanently restricted. Other market value changes, whether realized or unrealized gains and losses or income (net of expenses), of donor-restricted endowments and all board-designated endowments are placed in the unrestricted category.

Endowments as of July 31, 2015, are composed of the following:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 14,121,449	$ 109,133,871	$ 123,255,320
Board-designated endowment funds	1,592,923	-	1,592,923
Total	$ 15,714,372	$ 109,133,871	$ 124,848,243

The change in endowments for the year ended July 31, 2015, is as follows:

	Unrestricted	Permanently Restricted	Total
Beginning of the period	$ 17,793,787	$ 107,722,340	$ 125,516,127
Investment loss	(2,079,415)	(291,663)	(2,371,078)
Contributions	-	1,703,194	1,703,194
End of period	$ 15,714,372	$ 109,133,871	$ 124,848,243

Endowments as of July 31, 2014, are composed of the following:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 16,171,604	$ 107,722,340	$ 123,893,944
Board-designated endowment funds	1,622,183	-	1,622,183
Total	$ 17,793,787	$ 107,722,340	$ 125,516,127

The change in endowments for the year ended July 31, 2014, is as follows:

	Unrestricted	Permanently Restricted	Total
Beginning of the period	$ 14,705,359	$ 95,480,143	$ 110,185,502
Investment income	3,088,428	4,697,933	7,786,361
Contributions	-	7,544,264	7,544,264
End of period	$ 17,793,787	$ 107,722,340	$ 125,516,127

11. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Foundation uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Valuations based on inputs, other than quoted prices included in Level 1, which are observable either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair values for money market funds, equities, mutual funds, and closed-end funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

Fair values for investment in partnerships have been estimated using the net asset value (NAV) per share of the investments as provided by the fund managers. Individual fund managers rely on a variety of inputs that are available according to the type of investment strategy in use.

Multi-strategy and Long/short hedge funds typically utilize the NAV provided by the underlying investee. The Valuation Committee established by each fund manager also takes into account information provided within audited and unaudited financial statements and performance reports of the underlying investee. In addition, third party valuation services, broker quotes, estimates, and other alternative valuation techniques may be utilized by the fund's Valuation Committee.

Structured credit fund portfolio investments are primarily in the form of debt investments that are not publicly traded. The fair value of these securities is not readily determinable. These investments are valued on at least a quarterly basis in accordance with a valuation policy which is, at all times, consistent with accounting principles generally accepted in the United States (US GAAP). The Board of Directors or Valuation Committee determines the fair value in good faith based on the input of their Investment Advisor and the respective third-party valuation firms.

Private equity funds fair values are supported by information received from the investee funds such as monthly net asset values, investor reports, and audited financial statements, when available. The fund Valuation Committee may consider other factors, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

Investments by category level at July 31, 2015, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$124,848,243	$109,976,570	$ 1,523,101	$ 13,348,572
Other	17,517,313	17,517,313	-	-
Annuities, net	4,443,473	4,443,473	-	-
Total	$146,809,029	$131,937,356	$ 1,523,101	$ 13,348,572

Investments by category level at July 31, 2014, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$125,516,127	$ 112,145,402	$ 1,193,160	$ 12,177,565
Other	7,780,207	7,780,207	-	-
Annuities, net	4,423,162	4,423,162	-	-
Total	$137,719,496	$124,348,771	$ 1,193,160	$ 12,177,565

The changes in investment in partnerships, which are measured at fair value on a recurring basis using significant unobservable inputs, are as follows:

Balance at July 31, 2013	$ 13,022,385
Redemptions	(3,050,000)
Subscriptions	1,468,450
Change in estimated fair value	736,730
Balance at July 31, 2014	12,177,565
Redemptions	(225,084)
Subscriptions	736,764
Change in estimated fair value	659,327
Balance at July 31, 2015	$ 13,348,572

12. NOTES PAYABLE

In fiscal year 2012, the Seminary entered into a financing arrangement ("Loan") with a bank, for the purpose of paying for construction of 252 new student housing units. The Loan is structured with $16,000,000 of tax-exempt bonds and a $7,000,000 taxable loan with the bank. The tax-exempt bonds are amortized over 20 years, with the final payment due December 15, 2021. Interest calculation is based upon 65% of the 90-day LIBOR rate plus 156 basis points. The 90-day LIBOR rate is 0.28% and 0.24% at July 31, 2015 and 2014, respectively. From December 2011 to December 2013, quarterly payments were for interest only, with both principal reduction and interest payments beginning in January 2014. The taxable portion of the loan is due December 30, 2016, with interest calculated as 90-day LIBOR rate plus 200 basis points. The Loan is secured with securities, with a fair value of $7,897,000, and deeds of trust on land and buildings, with a net book value of $17,257,000, in Fort Worth, Texas.

Scheduled principal payments and total loans outstanding at July 31, 2015, for the following five years ended July 31 and thereafter are as follows:

2016	$ 684,680
2017	7,709,095
2018	733,000
2019	757,708
2020	782,186
Thereafter	11,185,108
Total scheduled payments	21,851,777
Liability on swap agreement	453,275
Total amount outstanding	$ 22,305,052

The Seminary entered into an interest rate swap as a hedge against exposure to variances in interest rates applied to the Loan. The differential interest required to be paid or that will be received under this agreement is accrued consistent with the terms of the agreement and is recognized in the Statement of Activities and included in the Notes Payable. The interest rate for the loans is established quarterly based upon 65% of the 90-Day LIBOR plus 1.56% (1.74% and 1.72% at July 31, 2015 and 2014, respectively). The notional principal amount of the swap agreements are $10,000,000 and $6,000,000. The agreement effectively set the Seminary's interest rate exposure at 3.25% and 3.34%, respectively, for a period of ten years ending December 2021.

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the Statement of Financial Position. Accordingly, $453,275 and $289,892, which is representative of the value of the swap agreement at July 31, 2015 and 2014, respectively, is included in Notes Payable on the Statement of Financial Position. Value has been measured based on estimate of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying the valuation models.

The Seminary paid interest for the years ending July 31, 2015 and 2014, of $667,752 and $675,933, respectively.

13. CHARITABLE GIFT ANNUITIES

The Seminary, through the Foundation, enters into split interest agreements with donors whereby, in exchange for the gift from the donor, the Seminary is obligated to provide an annuity to the donor or other designated beneficiaries during their lifetimes. At July 31, 2015, two annuities are active. The assets and liabilities associated with these annuities are accounted for as indicated in Note 2, Split-Interest Agreements.

14. LEASE COMMITMENTS

The Seminary has non-cancelable operating leases for various office equipment expiring in 2017. Lease expenses were $235,255 and $278,831 for the years ended July 31, 2015 and 2014, respectively. The Seminary's future minimum lease payments under the lease agreements are as follows for the two years ended July 31:

2016	$ 258,432
2017	115,205
Total future minimum lease payments	$ 373,637

15. CONTINGENCY

The Tarrant County Appraisal District has assessed property taxes on certain Seminary properties. Management is contesting these assessments vigorously through its legal counsel and believes it is more likely than not that it will be able to achieve a favorable determination that these properties are, in fact, exempt from property taxes. Accordingly, no liability is recorded for these tax assessments.

16. ACCOUNTING FOR UNCERTAIN TAX POSITIONS

The Seminary is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation, except on net income derived from unrelated business activities. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax in 2015 and 2014 as expenses exceeded revenues. The Seminary believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Tax returns for the years 2013, 2012, and 2011 are subject to examination by tax authorities, and may change upon examination.

17. SUBSEQUENT EVENTS

The Seminary has evaluated subsequent events through October 2, 2015, the date the financial statements were available to be issued.

The Southwestern Baptist Theological Seminary

Consolidated Financial Statements

as of

July 31, 2016 and 2015

Together With

Independent Auditors' Report

GUINN, SMITH & CO. INC.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditors' Report

To the Board of Trustees
The Southwestern Baptist Theological Seminary
Fort Worth, Texas

We have audited the accompanying consolidated financial statements of The Southwestern Baptist Theological Seminary (a Texas nonprofit corporation) which comprise the consolidated statements of financial position as of July 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Southwestern Baptist Theological Seminary, as of July 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Guinn, Smith + Co. Inc.

Irving, Texas
October 3, 2016

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
July 31, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:				
Cash and cash equivalents	$ 3,559,879	$ 211,029	$ -	$ 3,770,908
Accounts receivables, net	653,625	-	-	653,625
Unconditional promises to give, net	-	7,581,638	-	7,581,638
Other assets	442,385	-	-	442,385
Investments:				
Endowment funds	11,356,396	-	105,521,474	116,877,870
Split-interest funds	-	-	13,985,318	13,985,318
Other investments	11,416,894	5,013,354	-	16,430,248
Total investments	22,773,290	5,013,354	119,506,792	147,293,436
Due from (to) other funds	(24,175,749)	23,648,129	527,620	-
Property, plant, and equipment, net	116,745,297	-	-	116,745,297
Total assets	$119,998,727	$ 36,454,150	$120,034,412	$276,487,289
Liabilities and net assets:				
Liabilities:				
Accounts payable	$ 1,545,562	$ -	$ -	$ 1,545,562
Accrued salaries and benefits	656,621	-	-	656,621
Deposits and agency funds	668,921	-	-	668,921
Deferred income	225,847	-	-	225,847
Notes payable	21,722,272	-	-	21,722,272
Liability under annuity contracts	-	-	9,911,167	9,911,167
Accrued postretirement benefit obligation	1,279,232	-	-	1,279,232
Accrued postemployment benefit obligation	650,936	-	-	650,936
Total liabilities	26,749,391	-	9,911,167	36,660,558
Net assets	93,249,336	36,454,150	110,123,245	239,826,731
Total liabilities and net assets	$119,998,727	$ 36,454,150	$120,034,412	$276,487,289

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
July 31, 2015

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:				
Cash and cash equivalents	$ 1,216,673	$ 210,684	$ -	$ 1,427,357
Accounts receivables, net	823,201	-	7,132	830,333
Unconditional promises to give, net	-	9,881,735	-	9,881,735
Other assets	636,938	-	-	636,938
Investments:				
Endowment funds	15,714,372	-	109,133,871	124,848,243
Split-interest funds	-	-	14,561,757	14,561,757
Other investments	11,384,712	6,132,601	-	17,517,313
Total investments	27,099,084	6,132,601	123,695,628	156,927,313
Due from (to) other funds	(19,465,047)	18,945,837	519,210	-
Property, plant, and equipment, net	114,476,106	-	-	114,476,106
Total assets	$124,786,955	$ 35,170,857	$124,221,970	$284,179,782
Liabilities and net assets:				
Liabilities:				
Accounts payable	$ 1,104,956	$ -	$ -	$ 1,104,956
Accrued salaries and benefits	466,306	-	-	466,306
Deposits and agency funds	675,816	-	-	675,816
Deferred income	313,648	-	-	313,648
Notes payable	22,137,052	-	-	22,137,052
Liability under annuity contracts	-	-	10,118,284	10,118,284
Accrued postretirement benefit obligation	965,386	-	-	965,386
Accrued postemployment benefit obligation	644,273	-	-	644,273
Total liabilities	26,307,437	-	10,118,284	36,425,721
Net assets	98,479,518	35,170,857	114,103,686	247,754,061
Total liabilities and net assets	$124,786,955	$ 35,170,857	$124,221,970	$284,179,782

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Year Ended July 31, 2016

	2016			
Changes in net assets:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Tuition and fees	$ 12,246,199	$ -	$ -	$ 12,246,199
Scholarship and fellowships	(4,598,285)	-	-	(4,598,285)
Gifts:				
Cooperative program	8,227,361	-	-	8,227,361
Student aid	-	2,784,468	-	2,784,468
Endowment	-	-	1,303,141	1,303,141
Other	3,505,628	7,697,809	-	11,203,437
Change in value of investments	(396,020)	2,112,480	(5,490,699)	(3,774,239)
Change in value of split interest funds	-	-	207,117	207,117
Auxiliary enterprises	7,513,391	-	-	7,513,391
Other	696,418	-	-	696,418
Net assets released from restriction	11,311,464	(11,311,464)	-	-
Total revenue	$ 38,506,156	$ 1,283,293	$ (3,980,441)	$ 35,809,008
Expenses and other deductions:				
Instructional	17,470,991	-	-	17,470,991
Institutional support	10,421,165	-	-	10,421,165
Student services	1,676,125	-	-	1,676,125
Plant operations	6,711,883	-	-	6,711,883
Auxiliary enterprises	8,973,480	-	-	8,973,480
Total operating expenses	45,253,644	-	-	45,253,644
Excess (deficiency) of operating revenues over expenses	(6,747,488)	1,283,293	(3,980,441)	(9,444,636)
Gain on sale of property	1,517,306	-	-	1,517,306
Change in net assets	(5,230,182)	1,283,293	(3,980,441)	(7,927,330)
Net assets, beginning of year	98,479,518	35,170,857	114,103,686	247,754,061
Net assets, end of year	$ 93,249,336	$ 36,454,150	$110,123,245	$239,826,731

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Year Ended July 31, 2015

	2015			
Changes in net assets:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Tuition and fees	$ 12,275,124	$ -	$ -	$ 12,275,124
Scholarship and fellowships	(4,398,953)	-	-	(4,398,953)
Gifts:				
Cooperative program	8,467,487	-	-	8,467,487
Student aid	-	2,806,455	-	2,806,455
Endowment	-	-	1,703,194	1,703,194
Other	4,322,058	16,862,927	-	21,184,985
Change in value of investments	2,179,961	2,068,331	(561,658)	3,686,634
Change in value of split interest funds	-	-	(6,389)	(6,389)
Auxiliary enterprises	7,422,182	-	-	7,422,182
Other	741,101	-	-	741,101
Net assets released from restriction	7,104,851	(7,104,851)	-	-
Total revenue	38,113,811	14,632,862	1,135,147	53,881,820
Expenses and other deductions:				
Instructional	15,882,872	-	-	15,882,872
Institutional support	9,631,059	-	-	9,631,059
Student services	1,626,785	-	-	1,626,785
Plant operations	7,085,192	-	-	7,085,192
Auxiliary enterprises	7,896,712	-	-	7,896,712
Total operating expenses	42,122,620	-	-	42,122,620
Change in net assets	(4,008,809)	14,632,862	1,135,147	11,759,200
Net assets, beginning of year	102,488,327	20,537,995	112,968,539	235,994,861
Net assets, end of year	$ 98,479,518	$ 35,170,857	$114,103,686	$247,754,061

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows
For the Years Ended July 31, 2016 and 2015

	2016	2015
Change in net assets	$ (7,927,330)	$ 11,759,200
Adjustments to reconcile change in net assets to net cash utilized by operating activities:		
Depreciation and amortization of debt issue cost	3,654,346	3,692,135
Contributions restricted for endowment and acquisition of long-term assets	(8,404,258)	(17,729,401)
Gain on retirement of assets	(1,516,164)	-
Non-cash contributions	(1,248,147)	(894,512)
Change in value of swap liability	245,900	163,383
Net realized and unrealized gains on investments	8,257,028	1,336,306
Investment income	(1,868,204)	(1,817,113)
Change in value of split-interest funds	226,843	190,424
Changes in operating assets and liabilities:		
Receivables	176,708	(179,590)
Unconditional promises to give	2,300,097	(5,762,752)
Other assets	194,553	305,404
Accounts payable	440,606	644,389
Other accrued expenses	183,420	(745,198)
Deferred income	(87,801)	63,814
Accrued postretirement benefit obligation	313,846	193,021
Accrued postemployment benefit obligation	6,663	183,116
Total adjustments	2,875,436	(20,356,574)
Net cash utilized by operating activities	(5,051,894)	(8,597,374)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	14,069,279	13,306,013
Purchase of investments	(10,010,039)	(21,980,651)
Proceeds from sale of property and equipment	1,674,055	-
Investment in construction in progress	(4,273,406)	(695,438)
Purchase of property, plant, and equipment	(1,784,022)	(983,806)
Net cash utilized by investing activities	(324,133)	(10,353,882)
Cash flows from financing activities:		
Principal payments on notes payable	(684,680)	(663,643)
Contributions restricted for endowments and acquisition of long-term assets	8,404,258	17,729,401
Net cash provided by financing activities	7,719,578	17,065,758
Net increase (decrease) in cash and cash equivalents	2,343,551	(1,885,498)
Cash and cash equivalents, beginning of year	1,427,357	3,312,855
Cash and cash equivalents, end of year	$ 3,770,908	$ 1,427,357

The accompanying notes are an integral part of these financial statements.

1. NATURE OF ORGANIZATION

The Southwestern Baptist Theological Seminary, (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Seminary's primary activities are to assist the churches of the Southern Baptist Convention ("SBC") by the biblical education of God-called men and women for their respective ministries, which fulfill the Great Commission and glorify God. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the SBC and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Seminary consolidates the accounts of The Southwestern Baptist Theological Seminary Development Foundation, Inc. ("Development") and Southwestern Seminary Foundation ("Foundation"), Texas non-profit corporations. Development was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. Foundation was formed in 2005 and became active in 2008. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage a portion of the Seminary's endowment portfolio. Development and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of either Development or Foundation, all respective assets they have shall inure to the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting

The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenue and Support

Revenues and support for the Seminary are primarily derived from tuition, fees, and contributions from donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions

The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue Recognition

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

Investment returns on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets

Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment, or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services

Occasionally, the Seminary receives support in the form of donated services. Those services are recognized as unrestricted revenues if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 31, 2016 and 2015.

Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant estimates included in these financial statements are depreciation, the valuation of certain level 3 investments, the interest rate swap agreement, the accrued benefit obligations, and allocation of certain expenses.

Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Foundation currently invests primarily in common stock, mutual funds and partnerships. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

Programs

The Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional -	providing a biblically-based education for undergraduate, graduate, and postgraduate degrees in theology, evangelism and missions, church and family ministries, and church music
Institutional support -	providing support for general operations
Student services -	providing campus life activities, placement and employment services to students
Plant operations -	providing for maintenance and care of facilities, grounds, and equipment
Auxiliary enterprises -	providing housing, dining, recreational and other services to students and staff

Cash and Cash Equivalents

For the purposes of financial reporting, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

Accounts Receivable

The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of each term. Amounts are reported net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the term are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Typically, students whose accounts are not current are not allowed to enroll in future classes. Allowance for doubtful accounts for the years ended July 31, 2016 and 2015 was $606,600 and $390,000, respectively.

Investments

Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses on investments are reflected in the Statement of Activities. Investments received by gift or bequest are recorded at fair value at the date of effective receipt. If fair value is not determinable at date of effective receipt, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

The Seminary is the beneficiary of certain perpetual trusts held and administered by third parties. Distributions from the trusts are recorded as endowment income and the carrying value of the investments is the current market value of underlying assets.

Split-Interest Agreements

The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized at the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the Statement of Activities as a change in value of split-interest agreements. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions used by trustees of the agreements.

Advertising Costs

The Seminary uses advertising to promote its major programs to the general public. The costs of advertising are expensed as incurred. Advertising expense was $513,661 and $299,157 for the years ended July 31, 2016 and 2015, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	5 - 10 years
Improvements other than buildings	30 years

Impairment of Long-lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Unconditional Promises to Give

The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectability and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences

Employees of the Seminary are entitled to paid vacation leave depending upon their length of service and other factors. Compensated absences for vacation leave have not been accrued since they cannot be reasonably estimated. The Seminary's policy is to recognize these costs when actually paid.

Interest Rate Swap Agreement

The Seminary uses a derivative to manage risks related to interest rate movements. The Seminary's interest-rate swap contracts are reported at fair value. The change in the swap contract's fair value is reported as a gain or loss in the Statement of Activities. The Seminary's risk management strategy is to stabilize cash flow requirements by maintaining a swap contract which effectively converts variable-rate debt to a fixed rate.

Change In Accounting Standards

During fiscal year 2016, the Organization changed its method of accounting for debt issuance costs provided for under amended Topic 835 of the Financial Accounting Standards Board Accounting Standards Codification. The effect was to present debt issuance costs related to a recognized debt liability as a direct deduction from that debt liability, consistent with the presentation of a debt discount. This change resulted in a decrease in other assets, along with a decrease in notes payable, thus both total assets and total liabilities decreased by equal amounts. There was no change in net assets. The financial statements for July 31, 2015, have been retrospectively restated, which resulted in the same net change in presentation of debt issuance costs.

3. UNCONDITIONAL PROMISES TO GIVE

Scheduled maturities of unconditional promises to give at July 31 are as follows:

	2016	2015
Less than one year	$ 2,422,500	$ 3,718,100
One to five years	5,501,700	6,969,098
Greater than five years	59,925	-
Total unconditional promises to give	7,984,125	10,687,198
Unamortized discount at 2.24% and 2.92%, respectively	(402,487)	(805,463)
Net unconditional promises to give	$ 7,581,638	$ 9,881,735

The Seminary evaluates the collectability of promises to give annually. No allowance for doubtful accounts was considered necessary at July 31, 2016 and 2015.

4. FUNDRAISING ACTIVITIES

Fundraising expense for the years ended July 31, 2016 and 2015, was $1,482,813 and $1,491,058, respectively, These expenses are included in institutional support in the accompanying Statement of Activities.

5. COOPERATIVE PROGRAM

One significant source of Seminary revenue is the Cooperative Program of the SBC. Churches participating in the Cooperative Program contribute to the SBC, which passes funds (according to an allocation formula) to the Seminary and other entities. The Seminary received $8,227,361 and $8,467,487 from the SBC for the years ended July 31, 2016 and 2015, respectively.

Distributions by state, as provided by the Executive Committee of the SBC for years ended July 31 are as follows:

	2016	2015
Alabama	$ 742,187	$ 775,248
Alaska	10,736	9,937
Arizona	36,617	38,385
Arkansas	378,563	393,456
California	95,014	98,019
Colorado	22,000	24,502
Dakota	3,332	2,964
District of Columbia	846	600
Florida	612,611	572,169
Georgia	717,204	766,442
Hawaii Pacific	10,376	14,826
Illinois	102,462	104,274
Indiana	38,773	41,428
Iowa	12,242	8,139
Kansas-Nebraska	27,367	27,585
Kentucky	436,575	446,552
Louisiana	320,380	342,704
Maryland-Delaware	65,735	76,038
Michigan	13,279	15,125
Minnesota-Wisconsin	3,898	3,172
Mississippi	503,590	517,479
Missouri	255,320	259,715
Montana	6,284	6,048
Nevada	23,335	16,790
New England	4,943	5,040
New Mexico	36,890	36,502
New York	8,191	8,865
North Carolina	478,293	473,661
Northwest	32,261	32,586
Ohio	74,442	62,679
Oklahoma	420,976	461,767
Pennsylvania-South Jersey	9,042	9,282
Puerto Rico/U.S. Virgin Islands	208	231
South Carolina	489,110	506,103
Tennessee	636,603	632,622
Texas-BGCT	441,897	485,824
Texas-SBTC	670,543	699,206
Utah-Idaho	7,209	6,080

	2016	2015
Virginia-BGAV	40,774	54,145
Virginia-SBCV	179,848	179,704
West Virginia	19,857	19,978
Wyoming	5,105	5,866
	7,994,918	8,241,738
Churches and individuals	232,443	225,749
Total Cooperative Program Allocation	$ 8,227,361	$ 8,467,487

6. INVESTMENTS

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following:

Mutual funds	$109,297,278	$115,194,600
Common stocks	10,829,790	11,322,530
Municipal bonds	89,674	-
Closed-end funds	2,380,572	3,038,004
Investments in partnerships	12,869,289	14,871,673
Cash and cash equivalents	11,826,833	12,500,506
Investments, net of restricted cash	$147,293,436	$156,927,313

The "Investments in partnerships" category is comprised of interests in certain limited partnerships and limited liability corporations and is carried at fair value as provided by the investment managers. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material. Certain partnership agreements are restricted as to resale and may require advance notice for redemption or withdrawal.

The Seminary's investments in partnerships is subject to various risk factors arising from the investment activities of the underlying instruments of the partnerships, including market, credit, and currency risk. The Seminary's risk of loss as of July 31, 2016 and 2015, in any of its investment partnerships is limited to the value of the investment at July 31, 2016 and 2015.

The following schedule details investment returns for the years ended July 31:

Dividend and interest income	$ 3,952,255	$ 3,871,661
Net realized gains on investments	598,511	1,329,129
Net unrealized (loss) gain on investments	(8,325,005)	(1,514,156)
Total	$ (3,774,239)	$ 3,686,634

Investment fees are netted against dividend and interest income.

7. PROPERTY, PLANT, AND EQUIPMENT

Property and equipment consists of the following at July 31:

	2016	2015
Land	$ 3,740,331	$ 3,740,331
Buildings	136,807,355	132,775,172
Equipment	15,607,996	14,426,869
Improvements other than buildings	6,186,816	6,186,816
Library books/microfilm/antiquities	14,110,492	14,091,685
	176,452,990	171,220,873
Less accumulated depreciation	(59,707,693)	(56,744,767)
Total	$116,745,297	$114,476,106

Buildings include construction in progress for a new facility to house the School of Evangelism & Missions and the College at Southwestern, totaling $5,191,642 at July 31, 2016.

8. EMPLOYEE BENEFITS

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary's contribution for the years ended July 31, 2016 and 2015, was $1,136,411 and $1,067,899, respectively.

Postretirement and Postemployment Benefits

The Seminary provides postemployment benefits to retired employees. The following table sets forth the future obligations at July 31:

Accumulated benefit costs	$ 650,936	$ 644,273
Employer contributions (benefit paid)	(49,265)	50,540
Net periodic benefit cost	55,928	233,656
Discount rate assumed	2.95%	3.75%

Postretirement Benefits

The Seminary provides postretirement life insurance benefits to retired employees. The following table sets forth the future obligations at July 31:

Accumulated benefit costs	$ 1,279,232	$ 965,386
Employer contributions (benefit paid)	(70,384)	52,586
Net periodic benefit cost	56,492	37,929
Comprehensive Income	327,738	-
Discount rate assumed	2.95%	3.70 %

9. NET ASSETS

	2016	2015
Temporarily restricted net assets consists of the following:		
Capital projects	$ 20,654,258	$ 18,764,085
Scholarships	10,043,348	9,885,747
Other	5,756,544	6,521,025
Total	$ 36,454,150	$ 35,170,857
Permanently restricted net assets consists of the following:		
Annuity and life income funds	$ 4,074,151	$ 4,443,473
Endowment funds	105,521,474	109,133,871
Other	527,620	526,342
Total	$110,123,245	$114,103,686
Net assets released during the years ended July 31 are for the following purposes:		
Scholarships	$ 4,598,285	$ 4,398,653
Capital projects	5,955,223	1,841,155
Other	757,956	865,043
Total	$ 11,311,464	$ 7,104,851

10. ENDOWMENT INVESTMENTS

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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce returns that equal inflation plus annual distribution, while assuming moderate levels of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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 Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment fund's average fair value based on a 16 quarter moving average of portfolio values. This is consistent with the Seminary's objective to maintain purchasing power of endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist agencies throughout the United States. These agencies do not report donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Seminary as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

Underwater Funds - From time to time, the market value of assets associated with individual donor-restricted endowment funds may fall below the original gift value (become "underwater"). In accordance with GAAP and the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), deficiencies of this nature are reported in unrestricted net assets.

Restrictions - Endowment investments are either permanently restricted or unrestricted. Donor contributions, earnings that are permanently reinvested at donor direction, and earnings from funds held in trust by others are treated as permanently restricted. Other market value changes, whether realized or unrealized gains and losses or income (net of expenses) of donor-restricted endowments and all board-designated endowments are placed in the unrestricted category.

Endowments as of July 31, 2016, are composed of the following:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 9,865,684	$ 105,521,474	$ 115,387,158
Board-designated	1,490,712	-	1,490,712
Total	$ 11,356,396	$ 105,521,474	$ 116,877,870

The change in endowments for the year ended July 31, 2016, is as follows:

	Unrestricted	Permanently Restricted	Total
Beginning of the period	$ 15,714,372	$ 109,133,871	$ 124,848,243
Investment loss	(4,357,976)	(4,825,549)	(9,183,525)
Contributions	-	1,213,152	1,213,152
End of period	$ 11,356,396	$ 105,521,474	$ 116,877,870

Endowments as of July 31, 2015, are composed of the following:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 14,121,449	$ 109,133,871	$ 123,255,320
Board-designated	1,592,923	-	1,592,923
Total	$ 15,714,372	$ 109,133,871	$ 124,848,243

The change in endowments for the year ended July 31, 2015, is as follows:

	Unrestricted	Permanently Restricted	Total
Beginning of the period	$ 17,793,787	$ 107,722,340	$ 125,516,127
Investment income	(2,079,415)	(291,663)	(2,371,078)
Contributions	-	1,703,194	1,703,194
End of period	$ 15,714,372	$ 109,133,871	$ 124,848,243

11. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Foundation uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Valuations based on inputs, other than quoted prices included in Level 1, which are observable either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair values for money market funds, equities, mutual funds, and closed-end funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

Fair values for investment in partnerships have been estimated using the net asset value (NAV) per share of the investments as provided by the fund managers. Individual fund managers rely on a variety of inputs that are available according to the type of investment strategy in use.

Multi-strategy and Long/short hedge funds typically utilize the NAV provided by the underlying investee. The Valuation Committee established by each fund manager also takes into account information provided within audited and unaudited financial statements and performance reports of the underlying investee. In addition, third party valuation services, broker quotes, estimates, and other alternative valuation techniques may be utilized by the fund's Valuation Committee.

Structured credit fund portfolio investments are primarily in the form of debt investments that are not publicly traded. The fair value of these securities is not readily determinable. These investments are valued on at least a quarterly basis in accordance with a valuation policy which is, at all times, consistent with accounting principles generally accepted in the United States (US GAAP). The Board of Directors or Valuation Committee determines the fair value in good faith based on the input of their Investment Advisor and the respective third-party valuation firms.

Private equity funds fair values are supported by information received from the investee funds such as monthly net asset values, investor reports, and audited financial statements, when available. The fund Valuation Committee may consider other factors, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

Investments by category level at July 31, 2016, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$116,877,870	$104,008,581	$ 2,349,726	$10,519,563
Other	16,430,248	16,430,248	-	-
Annuities, net	4,074,151	4,074,151	-	-
Total	$137,382,269	$124,512,980	$ 2,349,726	$10,519,563

Investments by category level at July 31, 2015, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$124,848,243	$109,976,570	$ 1,523,101	$13,348,572
Other	17,517,313	17,517,313	-	-
Annuities, net	4,443,473	4,443,473	-	-
Total	$146,809,029	$131,937,356	$ 1,523,101	$13,348,572

The changes in investment in partnerships, which are measured at fair value on a recurring basis using significant unobservable inputs, are as follows:

Balance at July 31, 2014	$ 12,177,565
Redemptions	(225,084)
Subscriptions	736,764
Change in estimated fair value	659,327
Balance at July 31, 2015	13,348,572
Redemptions	(5,411,582)
Subscriptions	3,092,269
Change in estimated fair value	(509,696)
Balance at July 31, 2016	$ 10,519,563

12. NOTES PAYABLE

In fiscal year 2012, the Seminary entered into a financing arrangement ("Loan") with a bank, for the purpose of paying for construction of 252 new student housing units. The Loan is structured with $16,000,000 of tax-exempt bonds and a $7,000,000 taxable loan with the bank. The tax-exempt portion of the loan is amortized over 20 years, with the final payment due December 15, 2021. Interest calculation is based upon 65% of the 90-day LIBOR rate plus 156 basis points. The 90-day LIBOR rate is 0.65% and 0.28% at July 31, 2016 and 2015, respectively. From December 2011 to December 2013, quarterly payments were for interest only, with both principal reduction and interest payments beginning in January 2014. The taxable portion of the loan is due December 30, 2016, with interest calculated as 90-day LIBOR rate plus 200 basis points. The Loan is secured with securities, with a fair value of $7,897,000, and deeds of trust on land and buildings, with a net book value of $30,349,854, in Fort Worth, Texas.

Scheduled principal payments and total loans outstanding at July 31, 2016, for the following five years ended July 31 and thereafter are as follows:

2017	$ 7,709,095
2018	733,000
2019	757,708
2020	782,186
2021	809,620
Thereafter	10,375,488
Total scheduled payments	21,167,097
Liability on swap agreement	699,175
Debt issue cost	(144,000)
Total amount outstanding	$ 21,722,272

The Seminary entered into an interest rate swap as a hedge against exposure to variances in interest rates applied to the loans. The differential interest required to be paid or that will be received under these agreement is accrued consistent with the terms of the agreements and is recognized in the Statements of Activities and included in these Notes Payable. The interest rate for the loans is established quarterly based upon 65% of the 90-Day LIBOR plus 1.56% (1.98% and 1.74% at July 31, 2016 and 2015, respectively). The notional principal amount of the swap agreements are $10,000,000 and $6,000,000. The agreements effectively fix the Seminary's interest rate exposure at 3.25% and 3.34%, respectively, for a period of ten years ending December 2021.

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the Statements of Financial Position. Accordingly, $699,175 and $453,275, which is representative of the value of the swap agreement at July 31, 2016 and 2015, respectively, is included in Notes Payable on the Statement of Financial Position. Value has been measured based on an estimate of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying the valuation models.

The Seminary paid interest for the years ending July 31, 2016 and 2015, of $660,678 and $667,752, respectively.

13. CHARITABLE GIFT ANNUITIES

The Seminary, through the Foundation, enters into split interest agreements with donors whereby, in exchange for the gift from the donor, the Seminary is obligated to provide an annuity to the donor or other designated beneficiaries during their lifetimes. At July 31, 2016, two annuities are active. The assets and liabilities associated with these annuities are accounted for as indicated in Note 2, Split-Interest Agreements.

14. LEASE COMMITMENTS

The Seminary has non-cancelable operating leases for various office equipment expiring in 2021. Lease expenses were $260,272 and $235,255 for the years ended July 31, 2016 and 2015, respectively. The Seminary's future minimum lease payments under the lease agreements are as follows for the five years ended July 31:

2017	$	219,922
2018		194,348
2019		194,018
2020		192,368
2021		81,287
Total future minimum lease payments	$	881,943

15. CONTINGENCY

The Tarrant County Appraisal District has assessed property taxes on certain Seminary properties. Management is contesting these assessments vigorously through its legal counsel and believes it is more likely than not that it will be able to achieve a favorable determination that these properties are, in fact, exempt from property taxes. Accordingly, no liability is recorded for these tax assessments.

16. ACCOUNTING FOR UNCERTAIN TAX POSITIONS

The Seminary is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation, except on net income derived from unrelated business activities. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax in 2016 and 2015 as expenses exceeded revenues. The Seminary believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Tax returns for the years 2014, 2013, and 2012 are subject to examination by tax authorities, and may change upon examination.

17. SUBSEQUENT EVENTS

The Seminary has evaluated subsequent events through October 3, 2016, the date the financial statements were available to be issued.

The Southwestern Baptist Theological Seminary

Consolidated Financial Statements

as of

July 31, 2017 and 2016

Together With

Independent Auditors' Report

GUINN, SMITH & CO. INC.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditors' Report

To the Board of Trustees
The Southwestern Baptist Theological Seminary
Fort Worth, Texas

We have audited the accompanying consolidated financial statements of The Southwestern Baptist Theological Seminary (a Texas nonprofit corporation) which comprise the consolidated statements of financial position as of July 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Southwestern Baptist Theological Seminary, as of July 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Guinn, Smith & Co. Inc.

Irving, Texas
October 3, 2017

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
July 31, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:				
Cash and cash equivalents	$ 3,167,093	$ 211,062	$ -	$ 3,378,155
Accounts receivables, net	743,825	-	-	743,825
Unconditional promises to give, net	-	4,646,834	-	4,646,834
Other assets	576,857	-	-	576,857
Investments:				
Endowment funds	14,297,168	-	114,949,793	129,246,961
Split-interest funds	-	-	14,752,919	14,752,919
Other investments	2,773,507	107,316	-	2,880,823
Total investments	17,070,675	107,316	129,702,712	146,880,703
Due from (to) other funds	(25,870,967)	25,044,439	826,528	-
Property, plant, and equipment, net	130,235,729	-	-	130,235,729
Total assets	$125,923,212	$ 30,009,651	$130,529,240	$286,462,103
Liabilities and net assets:				
Liabilities:				
Accounts payable	$ 3,529,595	$ -	$ -	$ 3,529,595
Accrued salaries and benefits	759,754	-	-	759,754
Deposits and agency funds	640,440	-	-	640,440
Deferred income	202,034	-	-	202,034
Notes payable	20,378,678	-	-	20,378,678
Liability under annuity contracts	-	-	10,279,649	10,279,649
Accrued postretirement benefit obligation	1,222,623	-	-	1,222,623
Accrued postemployment benefit obligation	576,889	-	-	576,889
Total liabilities	27,310,013	-	10,279,649	37,589,662
Net assets	98,613,199	30,009,651	120,249,591	248,872,441
Total liabilities and net assets	$125,923,212	$ 30,009,651	$130,529,240	$286,462,103

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
July 31, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:				
Cash and cash equivalents	$ 3,559,879	$ 211,029	$ -	$ 3,770,908
Accounts receivables, net	653,625	-	-	653,625
Unconditional promises to give, net	-	7,581,638	-	7,581,638
Other assets	442,385	-	-	442,385
Investments:				
Endowment funds	11,356,396	-	105,521,474	116,877,870
Split-interest funds	-	-	13,985,318	13,985,318
Other investments	11,416,894	5,013,354	-	16,430,248
Total investments	22,773,290	5,013,354	119,506,792	147,293,436
Due from (to) other funds	(24,175,749)	23,648,129	527,620	-
Property, plant, and equipment, net	116,745,297	-	-	116,745,297
Total assets	$119,998,727	$ 36,454,150	$120,034,412	$276,487,289
Liabilities and net assets:				
Liabilities:				
Accounts payable	$ 1,545,562	$ -	$ -	$ 1,545,562
Accrued salaries and benefits	656,621	-	-	656,621
Deposits and agency funds	668,921	-	-	668,921
Deferred income	225,847	-	-	225,847
Notes payable	21,722,272	-	-	21,722,272
Liability under annuity contracts	-	-	9,911,167	9,911,167
Accrued postretirement benefit obligation	1,279,232	-	-	1,279,232
Accrued postemployment benefit obligation	650,936	-	-	650,936
Total liabilities	26,749,391	-	9,911,167	36,660,558
Net assets	93,249,336	36,454,150	110,123,245	239,826,731
Total liabilities and net assets	$119,998,727	$ 36,454,150	$120,034,412	$276,487,289

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Year Ended July 31, 2017

	2017			
Changes in net assets:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Tuition and fees	$ 13,157,517	$ -	$ -	$ 13,157,517
Scholarship and fellowships	(5,041,069)	-	-	(5,041,069)
Gifts:				
Cooperative program	8,096,090	-	-	8,096,090
Student aid	-	7,484,633	-	7,484,633
Endowment	-	-	5,615,252	5,615,252
Other	2,677,361	-	-	2,677,361
Change in value of investments	2,683,661	6,841,319	4,879,577	14,404,557
Change in value of split interest funds	-	-	(368,483)	(368,483)
Auxiliary enterprises	7,135,333	-	-	7,135,333
Other	806,870	-	-	806,870
Net assets released from restriction	20,770,451	(20,770,451)	-	-
Total revenue	50,286,214	(6,444,499)	10,126,346	53,968,061
Expenses and other deductions:				
Instructional	17,541,852	-	-	17,541,852
Institutional support	9,983,309	-	-	9,983,309
Student services	1,953,903	-	-	1,953,903
Plant operations	9,644,698	-	-	9,644,698
Auxiliary enterprises	8,051,535	-	-	8,051,535
Total operating expenses	47,175,297	-	-	47,175,297
Excess (deficiency) of revenues over expenses	3,110,917	(6,444,499)	10,126,346	6,792,764
Gain on sale of property	2,252,946	-	-	2,252,946
Change in net assets	5,363,863	(6,444,499)	10,126,346	9,045,710
Net assets, beginning of year	93,249,336	36,454,150	110,123,245	239,826,731
Net assets, end of year	$ 98,613,199	$ 30,009,651	$120,249,591	$248,872,441

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Year Ended July 31, 2016

	2016			
Changes in net assets:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Tuition and fees	$ 12,246,199	$ -	$ -	$ 12,246,199
Scholarship and fellowships	(4,598,285)	-	-	(4,598,285)
Gifts:				
Cooperative program	8,227,361	-	-	8,227,361
Student aid	-	2,784,468	-	2,784,468
Endowment	-	-	1,303,141	1,303,141
Other	3,505,628	7,697,809	-	11,203,437
Change in value of investments	(396,020)	2,112,480	(5,490,699)	(3,774,239)
Change in value of split interest funds	-	-	207,117	207,117
Auxiliary enterprises	7,513,391	-	-	7,513,391
Other	696,418	-	-	696,418
Net assets released from restriction	11,311,464	(11,311,464)	-	-
Total revenue	38,506,156	1,283,293	(3,980,441)	35,809,008
Expenses and other deductions:				
Instructional	17,470,991	-	-	17,470,991
Institutional support	10,421,165	-	-	10,421,165
Student services	1,676,125	-	-	1,676,125
Plant operations	6,711,883	-	-	6,711,883
Auxiliary enterprises	8,973,480	-	-	8,973,480
Total operating expenses	45,253,644	-	-	45,253,644
Excess (deficiency) of revenues over expenses	(6,747,488)	1,283,293	(3,980,441)	(9,444,636)
Gain on sale of property	1,517,306	-	-	1,517,306
Change in net assets	(5,230,182)	1,283,293	(3,980,441)	(7,927,330)
Net assets, beginning of year	98,479,518	35,170,857	114,103,686	247,754,061
Net assets, end of year	$ 93,249,336	$ 36,454,150	$110,123,245	$239,826,731

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows
For the Years Ended July 31, 2017 and 2016

	2017	2016
Change in net assets	$ 9,045,710	$ (7,927,330)
Adjustments to reconcile change in net assets to net cash utilized by operating activities:		
Depreciation and amortization of debt issue cost	3,700,900	3,654,346
Contributions restricted for endowment and acquisition of long-term assets	(8,768,721)	(8,404,258)
Gain (loss) on sale of fixed assets	(2,245,432)	(1,516,164)
Non-cash contributions	(4,171,060)	(1,248,147)
Change in value of swap liability	(408,499)	245,900
Net unrealized and realized gain (loss) on investments	(10,605,284)	8,257,028
Investment income	(807,411)	(1,868,204)
Change in value of split-interest funds	554,624	226,843
Loss on retirement of assets	1,238,476	-
Changes in operating assets and liabilities:		
Receivables	(90,200)	176,708
Unconditional promises to give	2,934,804	2,300,097
Other assets	(134,472)	194,553
Accounts payable	57,484	440,606
Other accrued expenses	74,652	183,420
Deferred income	(23,813)	(87,801)
Accrued postretirement benefit obligation	(56,609)	313,846
Accrued postemployment benefit obligation	(74,047)	6,663
Total adjustments	(18,824,608)	2,875,436
Net cash utilized by operating activities	(9,778,898)	(5,051,894)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	27,923,859	14,069,279
Purchase of investments	(12,113,513)	(10,010,039)
Proceeds from sale of property and equipment	3,068,925	1,674,055
Investment in construction in progress	(15,149,238)	(4,273,406)
Purchase of property, plant, and equipment	(2,153,514)	(1,784,022)
Net cash provided by (utilized by) investing activities	1,576,519	(324,133)
Cash flows from financing activities:		
Principal payments on notes payable	(959,095)	(684,680)
Contributions restricted for endowments and acquisition of long-term assets	8,768,721	8,404,258
Net cash provided by financing activities	7,809,626	7,719,578
Net (decrease) increase in cash and cash equivalents	(392,753)	2,343,551
Cash and cash equivalents, beginning of year	3,770,908	1,427,357
Cash and cash equivalents, end of year	$ 3,378,155	$ 3,770,908

The accompanying notes are an integral part of these financial statements.

1. NATURE OF ORGANIZATION

The Southwestern Baptist Theological Seminary, (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Seminary's primary activities are to assist the churches of the Southern Baptist Convention ("SBC") by the biblical education of God-called men and women for their respective ministries, which fulfill the Great Commission and glorify God. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the SBC and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Seminary consolidates the accounts of The Southwestern Baptist Theological Seminary Development Foundation, Inc. ("Development") and Southwestern Seminary Foundation ("Foundation"), Texas non-profit corporations. Development was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. Foundation was formed in 2005 and became active in 2008. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage a portion of the Seminary's endowment portfolio. Development and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of either Development or Foundation, all respective assets they have shall inure to the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting

The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenue and Support

Revenues and support for the Seminary are primarily derived from tuition, fees, and contributions from donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions

The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue Recognition

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

Investment returns on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets

Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment, or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services

Occasionally, the Seminary receives support in the form of donated services. Those services are recognized as unrestricted revenues if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 31, 2017 and 2016.

Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant estimates included in these financial statements are depreciation, the valuation of certain level 3 investments, the interest rate swap agreement, the accrued benefit obligations, and allocation of certain expenses.

Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Foundation currently invests primarily in common stock, mutual funds and partnerships. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

Programs

The Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional -	providing a biblically-based education for undergraduate, graduate, and postgraduate degrees in theology, evangelism and missions, church and family ministries, and church music
Institutional support -	providing support for general operations
Student services -	providing campus life activities, placement and employment services to students
Plant operations -	providing for maintenance and care of facilities, grounds, and equipment
Auxiliary enterprises -	providing housing, dining, recreational and other services to students and staff

Cash and Cash Equivalents

For the purposes of financial reporting, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

Accounts Receivable

The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of each term. Amounts are reported net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the term are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Typically, students whose accounts are not current are not allowed to enroll in future classes. Allowance for doubtful accounts for the years ended July 31, 2017 and 2016 was $600,676 and $606,600, respectively.

Investments

Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses on investments are reflected in the Statement of Activities. Investments received by gift or bequest are recorded at fair value at the date of effective receipt. If fair value is not determinable at date of effective receipt, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

The Seminary is the beneficiary of certain perpetual trusts held and administered by third parties. Distributions from the trusts are recorded as endowment income and the carrying value of the investments is the current market value of underlying assets.

Fair Value Measurements

The Seminary follows FASB Accounting Standards Codification Topic 820, *Fair Value Measurement.* Topic 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarcy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

The Seminary adopted, and retrospectively applied, the provisions of Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its equivalent).* ASU No. 2015-07 amends ASC Topic 820, *Fair Value Measurement*, to remove the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. The information provided in Note 11 in these financial statements has been updated to comply with the provisions of this ASU.

Split-Interest Agreements

The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized at the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the Statement of Activities as a change in value of split-interest agreements. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions used by trustees of the agreements.

Advertising Costs

The Seminary uses advertising to promote its major programs to the general public. The costs of advertising are expensed as incurred. Advertising expense was $483,601 and $513,661 for the years ended July 31, 2017 and 2016, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	5 - 10 years
Improvements other than buildings	30 years

Impairment of Long-lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Unconditional Promises to Give

The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectability and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences

Employees of the Seminary are entitled to paid vacation leave depending upon their length of service and other factors. Compensated absences for vacation leave have not been accrued since they cannot be reasonably estimated. The Seminary's policy is to recognize these costs when actually paid.

Interest Rate Swap Agreement

The Seminary uses a derivative to manage risks related to interest rate movements. The Seminary's interest-rate swap contracts are reported at fair value. The change in the swap contract's fair value is reported as a gain or loss in the Statement of Activities. The Seminary's risk management strategy is to stabilize cash flow requirements by maintaining a swap contract which effectively converts variable-rate debt to a fixed rate.

Change In Accounting Standards

During fiscal year 2016, the Organization changed its method of accounting for debt issuance costs provided for under amended Topic 835 of the Financial Accounting Standards Board Accounting Standards Codification. The effect was to present debt issuance costs related to a recognized debt liability as a direct deduction from that debt liability, consistent with the presentation of a debt discount. This change resulted in a decrease in other assets, along with a decrease in notes payable, thus both total assets and total liabilities decreased by equal amounts. There was no change in net assets.

3. UNCONDITIONAL PROMISES TO GIVE

Scheduled maturities of unconditional promises to give at July 31 are as follows:

	2017	2016
Less than one year	$ 2,049,000	$ 2,422,500
One to five years	3,344,189	5,501,700
Greater than five years	-	59,925
Total unconditional promises to give	5,393,189	7,984,125
Unamortized discount at 2.90% and 2.24%, respectively	(286,355)	(402,487)
Unconditional promises to give	5,106,834	7,581,638
Allowance for doubtful accounts	(460,000)	-
Net unconditional promises to give	$ 4,646,834	$ 7,581,638

4. FUNDRAISING ACTIVITIES

Fundraising expense for the years ended July 31, 2017 and 2016, was $1,194,269 and $1,482,813, respectively, These expenses are included in institutional support in the accompanying Statement of Activities.

5. COOPERATIVE PROGRAM

One significant source of Seminary revenue is the Cooperative Program of the SBC. Churches participating in the Cooperative Program contribute to the SBC, which passes funds (according to an allocation formula) to the Seminary and other entities. The Seminary received $8,096,090 and $8,227,361 from the SBC for the years ended July 31, 2017 and 2016, respectively.

Distributions by state, as provided by the Executive Committee of the SBC for years ended July 31 are as follows:

	2017	2016
Alabama	$ 713,996	$ 742,187
Alaska	9,101	10,736
Arizona	37,948	36,617
Arkansas	366,691	378,563
California	91,206	95,014
Colorado	23,492	22,000
Dakota	3,453	3,332
District of Columbia	542	846
Florida	741,458	612,611
Georgia	691,901	717,204
Hawaii Pacific	19,797	10,376
Illinois	96,615	102,462
Indiana	29,704	38,773
Iowa	12,109	12,242
Kansas-Nebraska	28,636	27,367
Kentucky	418,025	436,575
Louisiana	297,466	320,380
Maryland-Delaware	63,587	65,735
Michigan	12,759	13,279
Minnesota-Wisconsin	4,572	3,898
Mississippi	486,863	503,590
Missouri	251,952	255,320
Montana	6,019	6,284
Nevada	22,975	23,335
New England	6,973	4,943
New Mexico	27,192	36,890
New York	9,605	8,191
North Carolina	475,738	478,293
Northwest	31,366	32,261
Ohio	82,982	74,442
Oklahoma	413,433	420,976
Pennsylvania-South Jersey	8,790	9,042
Puerto Rico/U.S. Virgin Islands	176	208

	2017	2016
South Carolina	457,150	489,110
Tennessee	621,853	636,603
Texas-BGCT	433,229	441,897
Texas-SBTC	635,595	670,543
Utah-Idaho	7,107	7,209
Virginia-BGAV	35,665	40,774
Virginia-SBCV	180,118	179,848
West Virginia	19,712	19,857
Wyoming	4,626	5,105
	7,882,177	7,994,918
Churches and individuals	213,913	232,443
Total Cooperative Program Allocation	$ 8,096,090	$ 8,227,361

6. INVESTMENTS

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following as of July 31:

Money market funds	$ 6,428,440	$ 11,843,038
Debt securities	5,908,720	5,233,192
Equity securities	38,455,633	33,999,488
Government securities	1,424,194	-
Global listed infrastucture	3,367,006	2,679,275
Private equity	2,113,753	2,156,989
Closed-end funds	2,534,840	2,380,572
Other Foundations and 3rd party trusts	74,974,362	78,185,665
Other investments	124,997	1,064,084
	135,331,945	137,542,303
Investments measured at net asset value	11,548,758	9,751,133
Investments, net of restricted cash	$ 146,880,703	$147,293,436

The "Investments measured at net asset value" and "Private equity" categories include interest in certain limited partnerships and limited liability corporations and is carried at fair value as provided by the investment managers. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material. Certain partnership agreements are restricted as to resale and may require advance notice for redemption or withdrawal.

The Seminary's investments in partnerships is subject to various risk factors arising from the investment activities of the underlying instruments of the partnerships, including market, credit, and currency risk. The Seminary's risk of loss as of July 31, 2017 and 2016, in any of its investment partnerships is limited to the value of the investment at July 31, 2017 and 2016.

The following schedule details investment returns for the years ended July 31:

	2017	2016
Dividend and interest income	$ 3,879,900	$ 3,952,255
Net realized gains on investments	578,757	598,511
Net unrealized gain (loss) on investments	9,945,900	(8,325,005)
Total	$ 14,404,557	$ (3,774,239)

Investment fees are netted against dividend and interest income.

7. PROPERTY, PLANT, AND EQUIPMENT

Property and equipment consists of the following at July 31:

Land	$ 3,690,331	$ 3,740,331
Buildings	150,555,291	136,807,355
Equipment	15,720,812	15,607,996
Improvements other than buildings	8,160,609	6,186,816
Library books/microfilm/antiquities	14,157,388	14,110,492
	192,284,431	176,452,990
Less accumulated depreciation	(62,048,702)	(59,707,693)
Total	$130,235,729	$116,745,297

Buildings include construction in progress for a new facility to house the School of Evangelism & Missions and the College at Southwestern, totaling $21,707,993 at July 31, 2017.

8. EMPLOYEE BENEFITS

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary's contribution for the years ended July 31, 2017 and 2016, was $1,178,007 and $1,136,411, respectively.

Postretirement and Postemployment Benefits

The Seminary provides postemployment benefits to retired employees. The following table sets forth the future obligations at July 31:

Accumulated benefit costs	$ 576,889	$ 650,936
Employer contributions (benefit paid)	(50,263)	(49,265)
Net periodic benefit cost	(23,784)	55,928
Discount rate assumed	3.47%	2.95%

Postretirement Benefits

The Seminary provides postretirement benefits to retired employees. The following table sets forth the future obligations at July 31:

	2017	2016
Accumulated benefit costs	$ 1,222,623	$ 1,279,232
Employer contributions (benefit paid)	(68,376)	(70,384)
Net periodic benefit cost	94,051	56,492
Comprehensive Income	(82,284)	327,738
Discount rate assumed	3.49%	2.95%

9. NET ASSETS

Temporarily restricted net assets consists of the following:

	2017	2016
Capital projects	$ 14,087,034	$ 20,654,258
Scholarships	9,895,939	10,043,348
Other	6,026,678	5,756,544
Total	$ 30,009,651	$ 36,454,150

Permanently restricted net assets consists of the following:

	2017	2016
Annuity and life income funds	$ 4,473,270	$ 4,074,151
Endowment funds	114,949,792	105,521,474
Other	826,529	527,620
Total	$120,249,591	$110,123,245

Net assets released during the years ended July 31 are for the following purposes:

	2017	2016
Scholarships	$ 5,007,070	$ 4,598,285
Capital projects	14,514,152	5,955,223
Other	1,249,229	757,956
Total	$ 20,770,451	$ 11,311,464

10. ENDOWMENT INVESTMENTS

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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce returns that equal inflation plus annual distribution, while assuming moderate levels of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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 Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment fund's average fair value based on a 16 quarter moving average of portfolio values. This is consistent with the Seminary's objective to maintain purchasing power of endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist agencies throughout the United States. These agencies do not report donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Seminary as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

Underwater Funds - From time to time, the market value of assets associated with individual donor-restricted endowment funds may fall below the original gift value (become "underwater"). In accordance with GAAP and the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), deficiencies of this nature are reported in unrestricted net assets.

Restrictions - Endowment investments are either permanently restricted or unrestricted. Donor contributions, earnings that are permanently reinvested at donor direction, and earnings from funds held in trust by others are treated as permanently restricted. Other market value changes, whether realized or unrealized gains and losses or income (net of expenses) of donor-restricted endowments and all board-designated endowments are placed in the unrestricted category.

Endowments as of July 31, 2017, are composed of the following:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 12,590,976	$ 114,949,793	$ 127,540,769
Board-designated	1,706,192	-	1,706,192
Total	$ 14,297,168	$ 114,949,793	$ 129,246,961

The change in endowments for the year ended July 31, 2017, is as follows:

	Unrestricted	Permanently Restricted	Total
Beginning of the period	$ 11,356,396	$ 105,521,474	$ 116,877,870
Investment gain	2,940,772	3,903,067	6,843,839
Contributions	-	5,525,252	5,525,252
End of period	$ 14,297,168	$ 114,949,793	$ 129,246,961

Endowments as of July 31, 2016, are composed of the following:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 9,865,684	$ 105,521,474	$ 115,387,158
Board-designated	1,490,712	-	1,490,712
Total	$ 11,356,396	$ 105,521,474	$ 116,877,870

The change in endowments for the year ended July 31, 2016, is as follows:

	Unrestricted	Permanently Restricted	Total
Beginning of the period	$ 15,714,372	$ 109,133,871	$ 124,848,243
Investment loss	(4,357,976)	(4,825,549)	(9,183,525)
Contributions	-	1,213,152	1,213,152
End of period	$ 11,356,396	$ 105,521,474	$ 116,877,870

11. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Seminary uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Valuations based on inputs, other than quoted prices included in Level 1, which are observable either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair values for money market funds, equities, mutual funds, and closed-end funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

Fair values for investment in partnerships have been estimated using the net asset value (NAV) per share of the investments as provided by the fund managers. Individual fund managers rely on a variety of inputs that are available according to the type of investment strategy in use.

Multi-strategy and long/short hedge funds typically utilize the NAV provided by the underlying investee. The Valuation Committee established by each fund manager also takes into account information provided within audited and unaudited financial statements and performance reports of the underlying investee. In addition, third party valuation services, broker quotes, estimates, and other alternative valuation techniques may be utilized by the fund's Valuation Committee.

Structured credit fund portfolio investments are primarily in the form of debt investments that are not publicly traded. The fair value of these securities is not readily determinable. These investments are valued on at least a quarterly basis in accordance with a valuation policy which is, at all times, consistent with accounting principles generally accepted in the United States (US GAAP). The Board of Directors or Valuation Committee determines the fair value in good faith based on the input of their Investment Advisor and the respective third-party valuation firms.

Private equity funds fair values are supported by information received from the investee funds such as monthly net asset values, investor reports, and audited financial statements, when available. The fund Valuation Committee may consider other factors, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

Investments by category level at July 31, 2017, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$117,698,203	$115,584,450	$ -	$ 2,113,753
Annuities, net	4,473,270	4,473,270	-	-
Other Investments	2,880,823	2,880,823	-	-
Total investments subject to fair value hierachy	125,052,296	$122,938,543	$ -	$ 2,113,753
Investments measured at net asset value	11,548,758			
Total	$136,601,054			

Investments by category level at July 31, 2016, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$107,126,737	$104,969,748	$ -	$ 2,156,989
Other	16,430,248	16,430,248	-	-
Annuities, net	4,074,151	4,074,151	-	-
Total investments subject to fair value hierachy	127,631,136	$125,474,147	$ -	$ 2,156,989
Investments measured at net asset value	9,751,133			
Total	$137,382,269			

The changes in investment in partnerships, which are measured at fair value on a recurring basis using significant unobservable inputs, are as follows:

Balance at July 31, 2015	$ 3,041,710
Redemptions	(1,287,218)
Subscriptions	423,962
Change in estimated fair value	(21,465)
Balance at July 31, 2016	2,156,989
Redemptions	(435,947)
Subscriptions	233,105
Change in estimated fair value	159,606
Balance at July 31, 2017	$ 2,113,753

12. NOTES PAYABLE

In fiscal year 2012, the Seminary entered into a financing arrangement ("Loan") with a bank, for the purpose of paying for construction of 252 new student housing units. The Loan is structured with $16,000,000 of tax-exempt bonds and a $7,000,000 taxable loan with the bank. The tax-exempt portion of the loan is amortized over 20 years, with the final payment due December 15, 2021. Interest calculation is based upon 65% of the 90-day LIBOR rate plus 156 basis points. The 90-day LIBOR rate is 1.31% and 0.65% at July 31, 2017 and 2016, respectively. From December 2011 to December 2013, quarterly payments were for interest only, with both principal reduction and interest payments beginning in January 2014. The taxable portion of the loan was due December 30, 2016, with interest calculated as 90-day LIBOR rate plus 200 basis points. This portion of the Loan was renewed and extended to mature on December 15, 2021, with the same interest provision. The Loan is secured with securities, with a fair value of $2,772,018, and deeds of trust on land and buildings, with a net book value of $27,423,683, in Fort Worth, Texas.

Scheduled principal payments and total loans outstanding at July 31, 2017, for the following five years ended July 31 and thereafter are as follows:

2018	$ 733,000
2019	757,708
2020	782,186
2021	809,620
2022	17,125,488
Total scheduled payments	20,208,002
Liability on swap agreement	290,676
Debt issue cost	(120,000)
Total amount outstanding	$ 20,378,678

The Seminary entered into an interest rate swap as a hedge against exposure to variances in interest rates applied to the loans. The differential interest required to be paid or that will be received under these agreements is accrued consistent with the terms of the agreements and is recognized in the Statements of Activities and included in these Notes Payable. The interest rate for the loans is established quarterly based upon 65% of the 90-Day LIBOR plus 1.56% (2.41% and 1.98% at July 31, 2017 and 2016, respectively). The notional principal amount of the swap agreements are $10,000,000 and $6,000,000. The agreements effectively fix the Seminary's interest rate exposure at 3.25% and 3.34%, respectively, for a period of ten years ending December 2021.

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the Statements of Financial Position. Accordingly, $290,676 and $699,175, which is representative of the value of the swap agreements at July 31, 2017 and 2016, respectively, is included in Notes Payable on the Statement of Financial Position. Value has been measured based on an estimate of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying the valuation models.

The Seminary paid interest for the years ending July 31, 2017 and 2016, of $686,290 and $660,678, respectively.

13. CHARITABLE GIFT ANNUITIES

The Seminary, through the Foundation, enters into split interest agreements with donors whereby, in exchange for the gift from the donor, the Seminary is obligated to provide an annuity to the donor or other designated beneficiaries during their lifetimes. At July 31, 2017, two annuities are active. The assets and liabilities associated with these annuities are accounted for as indicated in Note 2, Split-Interest Agreements.

14. LEASE COMMITMENTS

The Seminary has non-cancelable operating leases for various office equipment expiring in 2022. Lease expenses were $218,229 and $260,272 for the years ended July 31, 2017 and 2016, respectively. The Seminary's future minimum lease payments under the lease agreements are as follows for the five years ended July 31:

2018	$ 226,421
2019	226,256
2020	224,441
2021	101,730
2022	11,862
Total future minimum lease payments	$ 790,710

15. CONTINGENCY

The Tarrant County Appraisal District has assessed property taxes on certain Seminary properties. Management is contesting these assessments vigorously through its legal counsel and believes it is more likely than not that it will be able to achieve a favorable determination that these properties are, in fact, exempt from property taxes. Accordingly, no liability is recorded for these tax assessments.

16. ACCOUNTING FOR UNCERTAIN TAX POSITIONS

The Seminary is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation, except on net income derived from unrelated business activities. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax in 2017 and 2016 as expenses exceeded revenues. The Seminary believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Tax returns for the years 2015, 2014, and 2013 are subject to examination by tax authorities, and may change upon examination.

17. SUBSEQUENT EVENTS

The Seminary has evaluated subsequent events through October 3, 2017, the date the financial statements were available to be issued.

The Southwestern Baptist Theological Seminary

Consolidated Financial Statements

as of

July 31, 2018 and 2017

Together With

Independent Auditors' Report

GUINN, SMITH & CO. INC.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditors' Report

To the Board of Trustees
The Southwestern Baptist Theological Seminary
Fort Worth, Texas

We have audited the accompanying consolidated financial statements of The Southwestern Baptist Theological Seminary (a Texas nonprofit corporation) which comprise the consolidated statements of financial position as of July 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Southwestern Baptist Theological Seminary, as of July 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Guinn, Smith + Co. Inc.

Irving, Texas
October 11, 2018

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
For the Year Ended July 31, 2018

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:				
Cash and cash equivalents	$ 1,110,447		$ -	$ 1,110,447
Accounts receivables, net	743,524	-	-	743,524
Unconditional promises to give, net	-	2,404,348	-	2,404,348
Other assets	402,422	-	-	402,422
Notes Receivable	772,367	-	-	772,367
Investments:				
Endowment funds	14,540,873	-	120,731,273	135,272,146
Split-interest funds	-	-	14,865,329	14,865,329
Other investments	586,634	-	-	586,634
Total investments	15,127,507	-	135,596,602	150,724,109
Due from (to) other funds	(13,180,952)	12,696,618	484,334	-
Property, plant, and equipment, net	132,852,322	-	-	132,852,322
Total assets	$137,827,637	$ 15,100,966	$136,080,936	$289,009,539
Liabilities and net assets:				
Liabilities:				
Accounts payable	$ 1,264,724	$ -	$ -	$ 1,264,724
Accrued salaries and benefits	658,028	-	-	658,028
Deposits and agency funds	679,179	-	-	679,179
Deferred income	200,134	-	-	200,134
Notes payable	19,322,037	-	-	19,322,037
Liability under annuity contracts	-	-	10,152,830	10,152,830
Accrued postretirement benefit obligation	946,881	-	-	946,881
Accrued postemployment benefit obligation	505,725	-	-	505,725
Total liabilities	23,576,708	-	10,152,830	33,729,538
Net assets	114,250,929	15,100,966	125,928,106	255,280,001
Total liabilities and net assets	$137,827,637	$ 15,100,966	$136,080,936	$289,009,539

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
For the Year Ended July 31, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:				
Cash and cash equivalents	$ 3,167,093	$ 211,062	$ -	$ 3,378,155
Accounts receivables, net	743,825	-	-	743,825
Unconditional promises to give, net	-	4,646,834	-	4,646,834
Other assets	576,857	-	-	576,857
Investments:				
Endowment funds	14,297,168	-	114,949,793	129,246,961
Split-interest funds	-	-	14,752,919	14,752,919
Other investments	2,773,507	107,316	-	2,880,823
Total investments	17,070,675	107,316	129,702,712	146,880,703
Due from (to) other funds	(25,870,967)	25,044,439	826,528	-
Property, plant, and equipment, net	130,235,729	-	-	130,235,729
Total assets	$125,923,212	$ 30,009,651	$130,529,240	$286,462,103
Liabilities and net assets:				
Liabilities:				
Accounts payable	$ 3,529,595	$ -	$ -	$ 3,529,595
Accrued salaries and benefits	759,754	-	-	759,754
Deposits and agency funds	640,440	-	-	640,440
Deferred income	202,034	-	-	202,034
Notes payable	20,378,678	-	-	20,378,678
Liability under annuity contracts	-	-	10,279,649	10,279,649
Accrued postretirement benefit obligation	1,222,623	-	-	1,222,623
Accrued postemployment benefit obligation	576,889	-	-	576,889
Total liabilities	27,310,013	-	10,279,649	37,589,662
Net assets	98,613,199	30,009,651	120,249,591	248,872,441
Total liabilities and net assets	$125,923,212	$ 30,009,651	$130,529,240	$286,462,103

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Year Ended July 31, 2018

	2018			
Changes in net assets:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Tuition and fees	$ 13,431,213	$ -	$ -	$ 13,431,213
Scholarship and fellowships	(5,431,924)	-	-	(5,431,924)
Gifts:				
Cooperative program	7,767,845	-	-	7,767,845
Student aid	-	2,498,256	-	2,498,256
Endowment	-	-	1,876,188	1,876,188
Other	5,554,093	-	-	5,554,093
Change in value of investments	7,700,039	(2,099,752)	3,675,508	9,275,795
Change in value of split interest funds	-	-	126,819	126,819
Auxiliary enterprises	6,136,005	-	-	6,136,005
Other	605,155	-	-	605,155
Net assets released from restriction	15,307,189	(15,307,189)	-	-
Total revenue	51,069,615	(14,908,685)	5,678,515	41,839,445
Expenses and other deductions:				
Instructional	15,073,548	-	-	15,073,548
Institutional support	6,309,653	-	-	6,309,653
Student services	1,635,968	-	-	1,635,968
Plant operations	5,629,755	-	-	5,629,755
Auxiliary enterprises	7,053,330	-	-	7,053,330
Total operating expenses	35,702,254	-	-	35,702,254
Excess (deficiency) of revenues over expenses	15,367,361	(14,908,685)	5,678,515	6,137,191
Gain on sale of property	270,369	-	-	270,369
Change in net assets	15,637,730	(14,908,685)	5,678,515	6,407,560
Net assets, beginning of year	98,613,199	30,009,651	120,249,591	248,872,441
Net assets, end of year	$114,250,929	$ 15,100,966	$125,928,106	$255,280,001

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Year Ended July 31, 2017

	2017			
Changes in net assets:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions:				
Tuition and fees	$ 13,157,517	$ -	$ -	$ 13,157,517
Scholarship and fellowships	(5,041,069)	-	-	(5,041,069)
Gifts:				
Cooperative program	8,096,090	-	-	8,096,090
Student aid	-	7,484,633	-	7,484,633
Endowment	-	-	5,615,252	5,615,252
Other	2,677,361	-	-	2,677,361
Change in value of investments	2,683,661	6,841,319	4,879,577	14,404,557
Change in value of split interest funds	-	-	(368,483)	(368,483)
Auxiliary enterprises	7,135,333	-	-	7,135,333
Other	806,870	-	-	806,870
Net assets released from restriction	20,770,451	(20,770,451)	-	-
Total revenue	50,286,214	(6,444,499)	10,126,346	53,968,061
Expenses and other deductions:				
Instructional	17,541,852	-	-	17,541,852
Institutional support	9,983,309	-	-	9,983,309
Student services	1,953,903	-	-	1,953,903
Plant operations	9,644,698	-	-	9,644,698
Auxiliary enterprises	8,051,535	-	-	8,051,535
Total operating expenses	47,175,297	-	-	47,175,297
Excess (deficiency) of revenues over expenses	3,110,917	(6,444,499)	10,126,346	6,792,764
Gain on sale of property	2,252,946	-	-	2,252,946
Change in net assets	5,363,863	(6,444,499)	10,126,346	9,045,710
Net assets, beginning of year	93,249,336	36,454,150	110,123,245	239,826,731
Net assets, end of year	$ 98,613,199	$ 30,009,651	$120,249,591	$248,872,441

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

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

	2018	2017
Change in net assets	$ 6,407,560	$ 9,045,710
Adjustments to reconcile change in net assets to net cash provided by (utilized by) operating activities:		
Depreciation and amortization of debt issue cost	4,355,778	3,700,900
Contributions restricted for endowment and acquisition of long-term assets	(1,995,720)	(8,768,721)
Gain (loss) on sale of fixed assets	(270,369)	(2,245,432)
Non-cash contributions	(335,006)	(4,171,060)
Change in value of swap liability	(347,912)	(408,499)
Net unrealized and realized gain (loss) on investments	(7,567,355)	(10,605,284)
Investment income	(663,226)	(807,411)
Change in value of split-interest funds	94,019	554,624
Loss on retirement of assets	127,521	1,238,476
Changes in operating assets and liabilities:		
Receivables	301	(90,200)
Unconditional promises to give	2,242,486	2,934,804
Other assets	152,068	(134,472)
Accounts payable	(567,372)	57,484
Other accrued expenses	(62,987)	74,652
Deferred income	(1,900)	(23,813)
Accrued postretirement benefit obligation	(275,742)	(56,609)
Accrued postemployment benefit obligation	(71,164)	(74,047)
Total adjustments	(5,186,580)	(18,824,608)
Net cash provided by (utilized by) operating activities	1,220,980	(9,778,898)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	11,447,990	27,923,859
Purchase of investments	(6,946,647)	(12,113,513)
Proceeds from sale of property and equipment	350,000	3,068,925
Investment in construction in progress	(2,913,554)	(15,149,238)
Purchase of property, plant, and equipment	(6,689,468)	(2,153,514)
Net cash (utilized) provided by investing activities	(4,751,679)	1,576,519
Cash flows from financing activities:		
Principal payments on notes payable	(732,729)	(959,095)
Contributions restricted for endowments and acquisition of long-term assets	1,995,720	8,768,721
Net cash provided by financing activities	1,262,991	7,809,626
Net decrease in cash and cash equivalents	(2,267,708)	(392,753)
Cash and cash equivalents, beginning of year	3,378,155	3,770,908
Cash and cash equivalents, end of year	$ 1,110,447	$ 3,378,155

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

1. NATURE OF ORGANIZATION

The Southwestern Baptist Theological Seminary, (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Seminary's primary activities are to assist the churches of the Southern Baptist Convention ("SBC") by the biblical education of God-called men and women for their respective ministries, which fulfill the Great Commission and glorify God. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the SBC and is an integrated auxiliary of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Seminary consolidates the accounts of The Southwestern Baptist Theological Seminary Development Foundation, Inc. ("Development") and Southwestern Seminary Foundation ("Foundation"), Texas non-profit corporations. Development was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. Foundation was formed in 2005 and became active in 2008. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage a portion of the Seminary's endowment portfolio. Development and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of either Development or Foundation, all respective assets they have shall inure to the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting

The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenue and Support

Revenues and support for the Seminary are primarily derived from tuition, fees, and contributions from donors and supporters of the Seminary. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions

The Seminary reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

The Seminary reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue Recognition

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

Investment returns on endowment and similar funds are reported as follows:

- as changes in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in temporarily restricted net assets if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in unrestricted net assets in all other cases.

Donated Assets

Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment, or expense account. In the absence of donor restrictions, donated assets are reported as unrestricted revenue.

Donated Services

Occasionally, the Seminary receives support in the form of donated services. Those services are recognized as unrestricted revenues if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 31, 2018 and 2017.

Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant estimates included in these financial statements are depreciation, the valuation of certain level 3 investments, the interest rate swap agreement, the accrued benefit obligations, and allocation of certain expenses.

Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Foundation currently invests primarily in common stock, mutual funds and partnerships. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

Programs

The Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Instructional -	providing a biblically-based education for undergraduate, graduate, and postgraduate degrees in theology, evangelism and missions, church and family ministries, and church music
Institutional support -	providing support for general operations
Student services -	providing campus life activities, placement and employment services to students
Plant operations -	providing for maintenance and care of facilities, grounds, and equipment
Auxiliary enterprises -	providing housing, dining, recreational and other services to students and staff

Cash and Cash Equivalents

For the purposes of financial reporting, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

Accounts Receivable

The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of each term. Amounts are reported net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the term are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Typically, students whose accounts are not current are not allowed to enroll in future classes. Allowance for doubtful accounts for the years ended July 31, 2018 and 2017, was $456,620 and $600,676, respectively.

Investments

Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses on investments are reflected in the Statement of Activities. Investments received by gift or bequest are recorded at fair value at the date of effective receipt. If fair value is not determinable at date of effective receipt, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

The Seminary is the beneficiary of certain perpetual trusts held and administered by third parties. Distributions from the trusts are recorded as endowment income and the carrying value of the investments is the current market value of underlying assets.

Fair Value Measurements

The Seminary follows FASB Accounting Standards Codification Topic 820, *Fair Value Measurement.* Topic 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarcy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

The Seminary adopted the provisions of Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its equivalent).* ASU No. 2015-07 amends ASC Topic 820, *Fair Value Measurement*, to remove the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. The information provided in Note 11 in these financial statements has been updated to comply with the provisions of this ASU.

Split-Interest Agreements

The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized at the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the Statement of Activities as a change in value of split-interest agreements. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions used by trustees of the agreements.

Advertising Costs

The Seminary uses advertising to promote its major programs to the general public. The costs of advertising are expensed as incurred. Advertising expense was $346,835 and $483,601 for the years ended July 31, 2018 and 2017, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30 - 40 years
Equipment	5 - 10 years
Improvements other than buildings	30 years

Impairment of Long-lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Unconditional Promises to Give

The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectability and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences

Employees of the Seminary are entitled to paid vacation leave depending upon their length of service and other factors. Compensated absences for vacation leave have not been accrued since they cannot be reasonably estimated. The Seminary's policy is to recognize these costs when actually paid.

Interest Rate Swap Agreement

The Seminary uses a derivative to manage risks related to interest rate movements. The Seminary's interest-rate swap contracts are reported at fair value. The change in the swap contract's fair value is reported as a gain or loss in the Statement of Activities. The Seminary's risk management strategy is to stabilize cash flow requirements by maintaining a swap contract which effectively converts variable-rate debt to a fixed rate.

3. UNCONDITIONAL PROMISES TO GIVE

Scheduled maturities of unconditional promises to give at July 31 are as follows:

	2018	2017
Less than one year	$ 1,168,229	$ 2,049,000
One to five years	1,362,000	3,344,189
Total unconditional promises to give	2,530,229	5,393,189
Unamortized discount at 3.10% and 2.90%, respectively	(125,881)	(286,355)
Unconditional promises to give	2,404,348	5,106,834
Allowance for doubtful accounts	-	(460,000)
Net unconditional promises to give	$ 2,404,348	$ 4,646,834

4. FUNDRAISING ACTIVITIES

Fundraising expense for the years ended July 31, 2018 and 2017, was $1,060,190 and $1,194,269, respectively, These expenses are included in institutional support in the accompanying Statement of Activities.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

5. COOPERATIVE PROGRAM

One significant source of Seminary revenue is the Cooperative Program of the SBC. Churches participating in the Cooperative Program contribute to the SBC, which passes funds (according to an allocation formula) to the Seminary and other entities. The Seminary received $7,767,845 and $8,096,090 from the SBC for the years ended July 31, 2018 and 2017, respectively.

Distributions by state, as provided by the Executive Committee of the SBC for years ended July 31 are as follows:

	2018	2017
Alabama	$ 721,647	$ 713,996
Alaska	8,934	9,101
Arizona	52,363	37,948
Arkansas	368,755	366,691
California	88,401	91,206
Colorado	23,543	23,492
Dakota	6,035	3,453
District of Columbia	561	542
Florida	586,426	741,458
Georgia	664,320	691,901
Hawaii Pacific	12,558	19,797
Illinois	92,793	96,615
Indiana	39,099	29,704
Iowa	13,832	12,109
Kansas-Nebraska	30,945	28,636
Kentucky	408,534	418,025
Louisiana	275,808	297,466
Maryland-Delaware	62,497	63,587
Michigan	12,326	12,759
Minnesota-Wisconsin	8,078	4,572
Mississippi	464,046	486,863
Missouri	241,515	251,952
Montana	7,038	6,019
Nevada	23,276	22,975
New England	6,622	6,973
New Mexico	33,613	27,192
New York	9,650	9,605
North Carolina	466,406	475,738
Northwest	30,217	31,366
Ohio	81,802	82,982
Oklahoma	390,333	413,433
Pennsylvania-South Jersey	11,178	8,790
Puerto Rico/U.S. Virgin Islands	141	176

	2018	2017
South Carolina	440,426	457,150
Tennessee	616,395	621,853
Texas-BGCT	396,718	433,229
Texas-SBTC	603,739	635,595
Utah-Idaho	7,785	7,107
Virginia-BGAV	32,735	35,665
Virginia-SBCV	173,715	180,118
West Virginia	19,340	19,712
Wyoming	4,382	4,626
	7,538,527	7,882,177
Churches and individuals	229,318	213,913
Total Cooperative Program Allocation	$ 7,767,845	$ 8,096,090

6. INVESTMENTS

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following as of July 31:

Money market funds	$ 3,206,208	$ 6,428,440
Debt securities	5,232,320	5,908,720
Equity securities	40,238,749	38,455,633
Government securities	1,561,642	1,424,194
Global listed infrastucture	3,574,513	3,367,006
Private equity	1,562,868	2,113,753
Closed-end funds	2,416,589	2,534,840
Other Foundations and 3rd party trusts	78,830,725	74,974,362
Other investments	729,882	124,997
	137,353,496	135,331,945
Investments measured at net asset value	13,370,613	11,548,758
Investments, net of restricted cash	$ 150,724,109	$146,880,703

The "Investments measured at net asset value" and "Private equity" categories include interest in certain limited partnerships and limited liability corporations and is carried at fair value as provided by the investment managers. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material. Certain partnership agreements are restricted as to resale and may require advance notice for redemption or withdrawal.

The Seminary's investments in partnerships is subject to various risk factors arising from the investment activities of the underlying instruments of the partnerships, including market, credit, and currency risk. The Seminary's risk of loss as of July 31, 2018 and 2017, in any of its investment partnerships is limited to the value of the investment at July 31, 2018 and 2017.

The Seminary provides postemployment benefits to retired employees. The following table sets forth the future obligations at July 31:

	2018	2017
Accumulated benefit costs	$ 505,725	$ 576,889
Employer contributions (benefit paid)	(50,798)	(50,263)
Net periodic benefit cost	20,366	(23,784)
Discount rate assumed	4.04%	3.47%

9. NET ASSETS

Temporarily restricted net assets consists of the following:

Capital projects	$ 162,827	$ 14,087,034
Scholarships	9,621,783	9,895,939
Other	5,316,356	6,026,678
Total	$ 15,100,966	$ 30,009,651

Permanently restricted net assets consists of the following:

Annuity and life income funds	$ 4,712,498	$ 4,473,270
Endowment funds	120,731,273	114,949,792
Other	484,335	826,529
Total	$125,928,106	$120,249,591

Net assets released during the years ended July 31 are for the following purposes:

Capital projects	$ 9,518,820	$ 14,514,152
Scholarships	5,442,376	5,007,070
Other	345,993	1,249,229
Total	$ 15,307,189	$ 20,770,451

10. ENDOWMENT INVESTMENTS

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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce returns that equal inflation plus annual distribution, while assuming moderate levels of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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 Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment fund's average fair value based on a 16 quarter moving average of portfolio values. This is consistent with the Seminary's objective to maintain purchasing power of endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist agencies throughout the United States. These agencies do not report donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Seminary as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

Underwater Funds - From time to time, the market value of assets associated with individual donor-restricted endowment funds may fall below the original gift value (become "underwater"). In accordance with GAAP and the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), deficiencies of this nature are reported in unrestricted net assets.

Restrictions - Endowment investments are either permanently restricted or unrestricted. Donor contributions, earnings that are permanently reinvested at donor direction, and earnings from funds held in trust by others are treated as permanently restricted. Other market value changes, whether realized or unrealized gains and losses or income (net of expenses) of donor-restricted endowments and all board-designated endowments are placed in the unrestricted category.

Endowments as of July 31, 2018, are composed of the following:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 14,155,234	$ 120,731,273	$ 134,886,507
Board-designated	385,639	-	385,639
Total	$ 14,540,873	$ 120,731,273	$ 135,272,146

The change in endowments for the year ended July 31, 2018, is as follows:

	Unrestricted	Permanently Restricted	Total
Beginning of the period	$ 14,297,168	$ 114,949,793	$ 129,246,961
Investment gain	243,705	3,958,086	4,201,791
Contributions	-	1,823,394	1,823,394
End of period	$ 14,540,873	$ 120,731,273	$ 135,272,146

Endowments as of July 31, 2017, are composed of the following:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 12,590,976	$ 114,949,793	$ 127,540,769
Board-designated	1,706,192	-	1,706,192
Total	$ 14,297,168	$ 114,949,793	$ 129,246,961

The change in endowments for the year ended July 31, 2017, is as follows:

	Unrestricted	Permanently Restricted	Total
Beginning of the period	$ 11,356,396	$ 105,521,474	$ 116,877,870
Investment gain	2,940,772	3,903,067	6,843,839
Contributions	-	5,525,252	5,525,252
End of period	$ 14,297,168	$ 114,949,793	$ 129,246,961

11. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Seminary uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Valuations based on inputs, other than quoted prices included in Level 1, which are observable either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair values for money market funds, equities, mutual funds, and closed-end funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

Fair values for investment in partnerships have been estimated using the net asset value (NAV) per share of the investments as provided by the fund managers. Individual fund managers rely on a variety of inputs that are available according to the type of investment strategy in use.

Multi-strategy and long/short hedge funds typically utilize the NAV provided by the underlying investee. The Valuation Committee established by each fund manager also takes into account information provided within audited and unaudited financial statements and performance reports of the underlying investee. In addition, third party valuation services, broker quotes, estimates, and other alternative valuation techniques may be utilized by the fund's Valuation Committee.

Structured credit fund portfolio investments are primarily in the form of debt investments that are not publicly traded. The fair value of these securities is not readily determinable. These investments are valued on at least a quarterly basis in accordance with a valuation policy which is, at all times, consistent with accounting principles generally accepted in the United States (US GAAP). The Board of Directors or Valuation Committee determines the fair value in good faith based on the input of their Investment Advisor and the respective third-party valuation firms.

Private equity funds fair values are supported by information received from the investee funds such as monthly net asset values, investor reports, and audited financial statements, when available. The fund Valuation Committee may consider other factors, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

Investments by category level at July 31, 2018, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$121,901,534	$120,338,666	$ -	$ 1,562,868
Annuities, net	4,712,498	4,712,498	-	-
Other Investments	586,634	586,634	-	-
Total investments subject to fair value hierachy	127,200,666	$125,637,798	$ -	$ 1,562,868
Investments measured at net asset value	13,370,613			
Total	$140,571,279			

Investments by category level at July 31, 2017, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$117,698,203	$115,584,450	$ -	$ 2,113,753
Annuities, net	4,473,270	4,473,270	-	-
Other Investments	2,880,823	2,880,823	-	-
Total investments subject to fair value hierachy	125,052,296	$122,938,543	$ -	$ 2,113,753
Investments measured at net asset value	11,548,758			
Total	$136,601,054			

The changes in investment in partnerships, which are measured at fair value on a recurring basis using significant unobservable inputs, are as follows:

Balance at July 31, 2016	$ 2,156,989
Redemptions	(435,947)
Subscriptions	233,105
Change in estimated fair value	159,606
Balance at July 31, 2017	2,113,753
Redemptions	(915,938)
Subscriptions	101,648
Change in estimated fair value	263,405
Balance at July 31, 2018	$ 1,562,868

12. NOTES PAYABLE

In fiscal year 2012, the Seminary entered into a financing arrangement ("Loan") with a bank, for the purpose of paying for construction of 252 new student housing units. The Loan is structured with $16,000,000 of tax-exempt bonds and a $7,000,000 taxable loan with the bank. The tax-exempt portion of the loan is amortized over 20 years, with the final payment due December 15, 2021. Interest calculation is based upon 65% of the 90-day LIBOR rate plus 156 basis points. The 90-day LIBOR rate is 1.31% and 0.65% at July 31, 2018 and 2017, respectively. From December 2011 to December 2013, quarterly payments were for interest only, with both principal reduction and interest payments beginning in January 2014. The taxable portion of the loan was due December 30, 2016, with interest calculated as 90-day LIBOR rate plus 200 basis points. This portion of the Loan was renewed and extended to mature on December 15, 2021, with the same interest provision. The Loan is secured with securities, with a fair value of $501,429, and deeds of trust on land and buildings, with a net book value of $26,634,547 in Fort Worth, Texas.

Scheduled principal payments and total loans outstanding at July 31, 2018, for the following three years ended July 31 and thereafter are as follows:

2019	$ 757,708
2020	782,186
2021	809,620
Thereafter	17,125,759
Total scheduled payments	19,475,273
Liability on swap agreement	(57,236)
Debt issue cost	(96,000)
Total amount outstanding	$ 19,322,037

The Seminary entered into an interest rate swap as a hedge against exposure to variances in interest rates applied to the loans. The differential interest required to be paid or that will be received under these agreements is accrued consistent with the terms of the agreements and is recognized in the Statements of Activities and included in these Notes Payable. The interest rate for the bonds is established quarterly based upon 65% of the 90-Day LIBOR plus 1.56% (2.35% and 2.41% at July 31, 2018 and 2017, respectively). The notional principal amount of the swap agreements are $10,000,000 and $6,000,000. The agreements effectively fix the Seminary's interest rate exposure at 3.25% for a period of ten years ending December 2021.

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the Statements of Financial Position. Accordingly, $(57,236) and $290,676, which is representative of the value of the swap agreements at July 31, 2018 and 2017, respectively, is included in Notes Payable on the Statement of Financial Position. Value has been measured based on an estimate of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying the valuation models.

The Seminary paid interest for the years ending July 31, 2018 and 2017, of $718,412 and $686,290, respectively.

13. LEASE COMMITMENTS

The Seminary has non-cancelable operating leases for various office equipment expiring in 2023. Lease expenses were $255,910 and $218,229 for the years ended July 31, 2018 and 2017, respectively. The Seminary's future minimum lease payments under the lease agreements are as follows for the five years ended July 31:

2019	$	235,300
2020		235,300
2021		224,409
2022		213,242
2023		133,374
Total future minimum lease payments	$	1,041,625

14. ACCOUNTING FOR UNCERTAIN TAX POSITIONS

The Seminary is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation, except on net income derived from unrelated business activities. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax in 2018 and 2017 as expenses exceeded revenues. The Seminary believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Tax returns for the years 2015 and 2014, are subject to examination by tax authorities, and may change upon examination.

15. NONCASH INVESTING ACTIVITY

During 2018, the Organization sold land with a carrying value of $770,000 for $1,100,000. The Organization received $350,000 in cash and issued a note receivable for $750,000 with interest of 4.5% per annum. The note is receivable in semi-annual payments through maturity in June 2020.

16. SUBSEQUENT EVENTS

The Seminary has evaluated subsequent events through October 11, 2018, the date the financial statements were available to be issued.

The Southwestern Baptist Theological Seminary

Consolidated Financial Statements

as of

July 31, 2019 and 2018

Together With

Independent Auditors' Report

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A PROFESSIONAL CORPORATION
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Independent Auditors' Report

To the Board of Trustees
The Southwestern Baptist Theological Seminary
Fort Worth, Texas

We have audited the accompanying consolidated financial statements of The Southwestern Baptist Theological Seminary (a Texas nonprofit corporation) which comprise the consolidated statements of financial position as of July 31, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Southwestern Baptist Theological Seminary, as of July 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Guinn Smith & Co, Inc.

Irving, Texas
October 17, 2019

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
For the Year Ended July 31, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Assets:			
Cash and cash equivalents	$ 1,247,339	$ -	$ 1,247,339
Accounts receivables, net	890,625	-	890,625
Unconditional promises to give, net	-	1,319,799	1,319,799
Other assets	367,163	-	367,163
Notes receivable	396,560	-	396,560
Investments:			
Endowment funds	13,310,454	121,373,822	134,684,276
Split-interest funds	-	15,093,338	15,093,338
Other investments	91,854	-	91,854
Total investments	13,402,308	136,467,160	149,869,468
Due from (to) other funds	(14,504,849)	14,504,849	-
Property, plant, and equipment, net	125,966,664	-	125,966,664
Total assets	$127,765,810	$152,291,808	$280,057,618
Liabilities and net assets:			
Liabilities:			
Accounts payable	$ 1,339,574	$ -	$ 1,339,574
Accrued salaries and benefits	630,017	-	630,017
Deposits and agency funds	935,136	-	935,136
Deferred income	281,081	-	281,081
Notes payable	18,528,414	-	18,528,414
Liability under annuity contracts	-	10,210,870	10,210,870
Accrued postretirement benefit obligation	1,252,610	-	1,252,610
Accrued postemployment benefit obligation	485,225	-	485,225
Total liabilities	23,452,057	10,210,870	33,662,927
Net assets	104,313,753	142,080,938	246,394,691
Total liabilities and net assets	$127,765,810	$152,291,808	$280,057,618

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
For the Year Ended July 31, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Assets:			
Cash and cash equivalents	$ 1,110,447	$ -	$ 1,110,447
Accounts receivables, net	743,524	-	743,524
Unconditional promises to give, net	-	2,404,348	2,404,348
Other assets	402,422	-	402,422
Notes receivable	772,367	-	772,367
Investments:			
Endowment funds	14,540,873	120,731,273	135,272,146
Split-interest funds	-	14,865,329	14,865,329
Other investments	586,634	-	586,634
Total investments	15,127,507	135,596,602	150,724,109
Due from (to) other funds	(13,180,952)	13,180,952	-
Property, plant, and equipment, net	132,852,322	-	132,852,322
Total assets	$137,827,637	$151,181,902	$289,009,539
Liabilities and net assets:			
Liabilities:			
Accounts payable	$ 1,264,724	$ -	$ 1,264,724
Accrued salaries and benefits	658,028	-	658,028
Deposits and agency funds	679,179	-	679,179
Deferred income	200,134	-	200,134
Notes payable	19,322,037	-	19,322,037
Liability under annuity contracts	-	10,152,830	10,152,830
Accrued postretirement benefit obligation	946,881	-	946,881
Accrued postemployment benefit obligation	505,725	-	505,725
Total liabilities	23,576,708	10,152,830	33,729,538
Net assets	114,250,929	141,029,072	255,280,001
Total liabilities and net assets	$137,827,637	$151,181,902	$289,009,539

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Year Ended July 31, 2019

	2019		
Changes in net assets:	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other additions:			
Tuition and fees	$ 13,051,740	$ -	$ 13,051,740
Scholarship and fellowships	(5,313,386)	-	(5,313,386)
Gifts:			
Cooperative Program	7,631,157	-	7,631,157
Student aid	-	2,646,810	2,646,810
Endowment	48,000	1,615,968	1,663,968
Other	987,620	910,282	1,897,902
Investment return	3,183,970	1,395,435	4,579,405
Change in value of split interest funds	-	(58,037)	(58,037)
Auxiliary enterprises	5,668,690	-	5,668,690
Other	778,670	-	778,670
Net assets released from restriction	5,458,592	(5,458,592)	-
Total revenue	31,495,053	1,051,866	32,546,919
Expenses and other deductions:			
Academic and student programs	17,514,481	-	17,514,481
Administrative support	9,074,448	-	9,074,448
Auxiliaries	8,186,186	-	8,186,186
Facilities operation and maintenance	3,322,475	-	3,322,475
Total operating expenses	38,097,590	-	38,097,590
Change in net assets from operating activities	(6,602,537)	1,051,866	(5,550,671)
Loss on sale of property	(3,334,639)	-	(3,334,639)
Change in net assets	(9,937,176)	1,051,866	(8,885,310)
Net assets, beginning of year	114,250,929	141,029,072	255,280,001
Net assets, end of year	$104,313,753	$142,080,938	$246,394,691

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Year Ended July 31, 2018

	2018		
Changes in net assets:	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other additions:			
Tuition and fees	$ 13,431,214	$ -	$ 13,431,214
Scholarship and fellowships	(5,431,924)	-	(5,431,924)
Gifts:			
Cooperative Program	7,767,845	-	7,767,845
Student aid	-	2,498,256	2,498,256
Endowment	-	1,876,188	1,876,188
Other	5,554,093	-	5,554,093
Investment return	7,700,039	1,575,756	9,275,795
Change in value of split interest funds	-	126,819	126,819
Auxiliary enterprises	6,136,005	-	6,136,005
Other	605,155	-	605,155
Net assets released from restriction	15,307,189	(15,307,189)	-
Total revenue	51,069,616	(9,230,170)	41,839,446
Expenses and other deductions:			
Academic and student programs	16,709,517	-	16,709,517
Administrative support	6,309,653	-	6,309,653
Auxiliaries	7,053,330	-	7,053,330
Facilities operation and maintenance	5,629,755	-	5,629,755
Total operating expenses	35,702,255	-	35,702,255
Change in net assets from operating activities	15,367,361	(9,230,170)	6,137,191
Gain on sale of property	270,369	-	270,369
Change in net assets	15,637,730	(9,230,170)	6,407,560
Net assets, beginning of year	98,613,199	150,259,242	248,872,441
Net assets, end of year	$114,250,929	$141,029,072	$255,280,001

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows
For the Years Ended July 31, 2019 and 2018

Change in cash and cash equivalents:	2019	2018
Change in net assets	$ (8,885,310)	$ 6,407,560
Adjustments to reconcile change in net assets to net cash (utilized by) provided by operating activities:		
Depreciation and amortization of debt issue cost	4,186,531	4,355,778
Contributions restricted for endowment and acquisition of long-term assets	(2,107,975)	(1,995,720)
(Gain) loss on sale of fixed assets	3,334,639	(270,369)
Non-cash contributions	(518,753)	(335,006)
Change in value of swap liability	190,086	(347,912)
Net unrealized and realized gain (loss) on investments	388,562	(7,567,355)
Investment income	(1,189,584)	(663,226)
Change in value of split-interest funds	196,195	94,019
Loss on retirement of assets	-	127,521
Changes in operating assets and liabilities:		
Receivables	(147,101)	301
Unconditional promises to give	1,084,549	2,242,486
Other assets	35,266	152,068
Accounts payable	(98,230)	(567,372)
Other accrued expenses	227,940	(62,987)
Deferred income	80,948	(1,900)
Accrued postretirement benefit obligation	305,729	(275,742)
Accrued postemployment benefit obligation	(20,500)	(71,164)
Total adjustments	5,948,302	(5,186,580)
Net cash (utilized by) provided by operating activities	(2,937,008)	1,220,980
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	76,415,136	11,447,990
Payments of notes receivable	375,807	-
Purchase of investments	(74,378,877)	(6,946,647)
Proceeds from sale of property and equipment	1,588,472	350,000
Investment in construction in progress	(735,932)	(2,913,554)
Purchase of property, plant, and equipment	(1,290,972)	(6,689,468)
Net cash provided by (utilized by) investing activities	1,973,634	(4,751,679)
Cash flows from financing activities:		
Principal payments on notes payable	(1,007,709)	(732,729)
Contributions restricted for endowments and acquisition of long-term assets	2,107,975	1,995,720
Net cash provided by financing activities	1,100,266	1,262,991
Net increase (decrease) in cash and cash equivalents	136,892	(2,267,708)
Cash and cash equivalents, beginning of year	1,110,447	3,378,155
Cash and cash equivalents, end of year	$ 1,247,339	$ 1,110,447

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

1. NATURE OF ORGANIZATION

The Southwestern Baptist Theological Seminary, (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The primary purpose of the Seminary is to provide theological education for individuals engaging in Christian ministry. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the SBC and is an entity of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Seminary consolidates the accounts of The Southwestern Baptist Theological Seminary Development Foundation, Inc. ("Development") and Southwestern Seminary Foundation ("Foundation"), Texas non-profit corporations. Development was formed to aid the Seminary in realizing its religious educational responsibility by acquiring and providing proper facilities and student housing to meet the needs of the Seminary. Foundation was formed in 2005 and became active in 2008. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage a portion of the Seminary's endowment portfolio. Development and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of either Development or Foundation, all respective assets they have shall inure to the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

These financial statements of the Seminary have been prepared and are presented in conformity with accounting principles generally accepted in the United States of America (GAAP). The Seminary is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Seminary. These net assets may be used at the discretion of the Seminary's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Seminary by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Basis of Accounting

The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenue and Support

Revenues and support for the Seminary are primarily derived from tuition, fees, and contributions from donors and supporters of the Seminary. Contributions received are recorded as net assets with donor restrictions and net assets without donor restrictions depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions

The Seminary reports gifts of cash and other assets as net asset with donor restrictions if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time net assets with donor restrictions are reclassified to net assets without donor restrictions. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as net assets without donor restrictions revenue.

The Seminary reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue Recognition

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

Investment returns on endowment and similar funds are reported as follows:

- as changes in net assets with donor restrictions if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in net assets with donor restrictions if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in net assets without donor restrictions in all other cases.

Donated Assets

Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment, or expense account. In the absence of donor restrictions, donated assets are reported as revenue without donor restrictions.

Donated Services

Occasionally, the Seminary receives support in the form of donated services. Those services are recognized as revenue without donor restrictions if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 31, 2019 and 2018.

Classification of Revenue and Expenses

Operating activities include items which are directly related to the Organization's program activities or are essential support elements of those programs. Depreciation and interest expense have been allocated to related operating activities. Interest income and gains or losses on disposals of assets or liabilities do not meet the Organization's criteria for operating activities and are included with other revenue and expenses.

Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant estimates included in these financial statements are depreciation, the valuation of certain level 3 investments, the interest rate swap agreement, the accrued benefit obligations, and allocation of certain expenses.

Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Foundation currently invests primarily in common stock, mutual funds and partnerships. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

Programs

The Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Academic and student	- providing a biblically-based education for undergraduate, graduate, and postgraduate degrees in theology, preaching, evangelism and missions, church and family ministries, church music, and women's studies; along with campus life activities, placement and employment services
Auxiliary enterprises	- providing housing, dining, recreational, and other services to students and staff
Administrative support	- providing support for program activities and general operations
Facilities operations	- providing for maintenance and care of facilities, grounds, and equipment

Cash and Cash Equivalents

For the purposes of financial reporting, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

Accounts Receivable

The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of each term. Amounts are reported net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the term are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Typically, students whose accounts are not current are not allowed to enroll in future classes. Allowance for doubtful accounts for the years ended July 31, 2019 and 2018, was $347,865 and $456,620, respectively.

Investments

Investments in debt, equity securities and mineral rights are stated at fair value. The net realized and unrealized gains and losses on investments are reflected in the Statement of Activities. Investments received by gift or bequest are recorded at fair value at the date of effective receipt. If fair value is not determinable at date of effective receipt, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

The Seminary is the beneficiary of certain perpetual trusts held and administered by third parties. Distributions from the trusts are recorded as endowment income and the carrying value of the investments is the current market value of underlying assets.

Fair Value Measurements

The Seminary follows FASB Accounting Standards Codification Topic 820, *Fair Value Measurement.* Topic 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

The Seminary adopted the provisions of Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its equivalent).* ASU No. 2015-07 amends ASC Topic 820, *Fair Value Measurement*, to remove the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. The information provided in Note 13 in these financial statements has been updated to comply with the provisions of this ASU.

Split-Interest Agreements

The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized at the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the Statement of Activities as a change in value of split-interest agreements. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions used by trustees of the agreements.

Advertising Costs

The Seminary uses advertising to promote its major programs to the general public. The costs of advertising are expensed as incurred. Advertising expense was $266,742 and $346,835 for the years ended July 31, 2019 and 2018, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30-40 years
Equipment	5-10 years
Improvements other than buildings	30 years

Impairment of Long-lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Unconditional Promises to Give

The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectability and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences

Employees of the Seminary are entitled to paid vacation leave depending upon their length of service and other factors. Compensated absences for vacation leave have not been accrued since they cannot be reasonably estimated. The Seminary's policy is to recognize these costs when actually paid.

Interest Rate Swap Agreement

The Seminary uses a derivative to manage risks related to interest rate movements. The Seminary's interest-rate swap contracts are reported at fair value. The change in the swap contract's fair value is reported as a gain or loss in the Statement of Activities. The Seminary's risk management strategy is to stabilize cash flow requirements by maintaining a swap contract which effectively converts variable-rate debt to a fixed rate.

New Accounting Pronouncements

In 2019, the Seminary adopted ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Seminary has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. The Seminary has exercised the option provided in the ASU to present only current period data for the Availability and Liquidity data (Note 3) and the presentation of Functional Expense by both nature and function (Note 4) for the year of implementation.

The Seminary adopted ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10) *Recognition and Measurement of Financial Assets and Financial Liabilities.* The update enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The Seminary has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Certain amounts from the 2018 statement of activities have been reclassified to conform to the current year's financial statement presentation and enhance comparability between periods. This change has no effect on net assets or the change in net assets for the year ended July 31, 2018.

3. LIQUIDITY AND AVAILABLE RESOURCES

The following represents the Seminary's financial assets at July 31, 2019:

Cash and cash equivalents	$ 1,247,339
Accounts and contributions receivable	2,210,424
Notes receivable	396,560
Investments	71,546,527
Endowments held in perpetuity by others	63,229,603
Annuities and trusts held by others	15,093,338
Other assets	367,163
Total financial assets	154,090,954

Amounts not available to be used within one year, due to:

Contribution and accounts receivable	$	(240,000)
Perpetual and term endowments and accumulated earnings not convertible to cash within the next 12 months		(68,174,674)
Endowments held in perpetuity by others not convertible to cash within the next 12 months		(60,229,603)
Investments held in trusts and various state required annuity reserves		(15,093,338)
Investments in board designated endowments		(439,082)
Total amounts not available to be used within one year		(144,176,697)
Financial assets available to meet general expenditures over the next twelve months	$	9,914,257

Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, perpetual endowments, or because the governing board has set aside the funds for specific contingency reserves and projects or a long-term investment as board designated endowments. The Seminary structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Seminary also has an unsecured $3,000,000 line of credit, which was not drawn upon at July 31, 2019. The line of credit matures on January 19, 2021. The interest rate is LIBOR, with interest due monthly and principal due upon maturity.

4. FUNCTIONAL EXPENSES

Operating activities include items which are directly related to the Seminary's program services or are essential support elements of those programs. The costs of providing the Seminary's various programs and supporting services have been summarized in the table below, which reports certain categories of expenses that are attributable to more than one program or supporting activity. Accordingly, these expenses have been allocated among the programs and supporting services benefited using allocation bases determined by management and that are reasonable and consistently applied. Interest income and gains or losses on disposals of assets or liabilities do not meet the Seminary's criteria for operating activities and are included with other non-operating activities.

Total expenses include all operating expenses and net periodic pension cost.

	2019				
	Program Activities		Supporting Activities		
	Academic and student programs	Auxiliaries	Administrative Support	Facilities Operation and Maintenance	Total expenses
Salaries and wages	$ 10,227,381	$ 1,551,964	$ 3,587,227	$ 2,417,508	$ 17,784,080
Employee benefits	2,875,920	347,233	1,748,258	517,126	5,488,537
Depreciation and amortization	-	-	-	4,162,532	4,162,532
Services, supplies, and other	1,950,154	686,874	2,161,513	(37,951)	4,760,590
Occupancy, utilities, and maintenance	236,979	1,037,553	1,711,651	1,884,147	4,870,330
Interest	-	1,018,523	7,701	-	1,026,224
Transfer between functions	38,703	1,830,485	(294,664)	(1,569,227)	5,297
Depreciation and amortization, allocated by function	2,185,344	1,713,554	152,762	(4,051,660)	-
Total expenses	$ 17,514,481	$ 8,186,186	$ 9,074,448	$ 3,322,475	$ 38,097,590

5. UNCONDITIONAL PROMISES TO GIVE

Scheduled maturities of unconditional promises to give at July 31, are as follows:

	2019	2018
Less than one year	$ 1,122,000	$ 1,168,229
One to five years	240,000	1,362,000
Total unconditional promises to give	1,362,000	2,530,229
Unamortized discount at 2.53% and 3.10%, respectively	(42,201)	(125,881)
Net unconditional promises to give	$ 1,319,799	$ 2,404,348

6. FUNDRAISING ACTIVITIES

Fundraising expense for the years ended July 31, 2019 and 2018, was $964,296 and $1,060,190, respectively. These expenses are included in institutional support in the accompanying Statement of Activities.

7. COOPERATIVE PROGRAM

One significant source of Seminary revenue is the Cooperative Program of the SBC. Churches participating in the Cooperative Program contribute to the SBC, which passes funds (according to an allocation formula) to the Seminary and other entities. The Seminary received $7,631,157 and $7,767,845 from the SBC for the years ended July 31, 2019 and 2018, respectively.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Distributions by state, as provided by the Executive Committee of the SBC for years ended July 31, are as follows:

	2019	2018
Alabama	$ 736,304	$ 721,647
Alaska	6,831	8,934
Arizona	43,711	52,363
Arkansas	363,196	368,755
California	85,480	88,401
Colorado	27,063	23,543
Dakota	3,782	6,035
District of Columbia	-	561
Florida	577,578	586,426
Georgia	602,768	664,320
Hawaii Pacific	9,253	12,558
Illinois	91,252	92,793
Indiana	34,585	39,099
Iowa	13,379	13,832
Kansas-Nebraska	31,768	30,945
Kentucky	387,797	408,534
Louisiana	269,664	275,808
Maryland-Delaware	66,243	62,497
Michigan	12,324	12,326
Minnesota-Wisconsin	9,186	8,078
Mississippi	479,113	464,046
Missouri	227,339	241,515
Montana	7,628	7,038
Nevada	24,309	23,276
New England	8,381	6,622
New Mexico	32,579	33,613
New York	9,432	9,650
North Carolina	449,477	466,406
Northwest	26,762	30,217
Ohio	84,594	81,802
Oklahoma	390,330	390,333
Pennsylvania-South Jersey	13,400	11,178
Puerto Rico/U.S. Virgin Islands	276	141
South Carolina	427,287	440,426
Tennessee	616,876	616,395
Texas-BGCT	402,974	396,718
Texas-SBTC	590,174	605,739
Utah-Idaho	8,364	7,785
Virginia-BGAV	30,615	32,755
Virginia-SBCV	178,569	173,715
West Virginia	21,482	19,340
Wyoming	4,251	4,382
	7,406,376	7,538,527
Churches and individuals	224,781	229,318
Total Cooperative Program Allocation	$ 7,631,157	$ 7,767,845

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

8. INVESTMENTS

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following as of July 31:

Money market funds	$ 477,197	$ 3,206,208
Debt securities	-	5,232,320
Equity securities	20,204	40,238,749
Government securities	-	1,561,642
Global listed infrastructure	-	3,574,513
Private equity	1,008,784	1,562,868
Closed-end funds	-	2,416,589
Other Foundations and 3rd party trusts	78,230,803	78,830,725
Other investments	-	729,882
	79,736,988	137,353,496
Investments measured at net asset value	70,132,480	13,370,613
Investments, net of restricted cash	$ 149,869,468	$ 150,724,109

The "Investments measured at net asset value" and "Private equity" categories include interest in certain limited partnerships and limited liability corporations and is carried at fair value as provided by the investment managers. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material. Certain partnership agreements are restricted as to resale and may require advance notice for redemption or withdrawal.

The Seminary's investments in partnerships is subject to various risk factors arising from the investment activities of the underlying instruments of the partnerships, including market, credit, and currency risk. The Seminary's risk of loss as of July 31, 2019 and 2018, in any of its investment partnerships is limited to the value of the investment at July 31, 2019 and 2018.

The following schedule details investment returns for the years ended July 31:

	2019	2018
Dividend and interest income	$ 4,821,657	$ 1,756,743
Net realized gains on investments	8,361,491	2,463,948
Net unrealized gain (loss) on investments	(8,603,743)	5,055,104
Total	$ 4,579,405	$ 9,275,795

Investment fees are netted against dividend and interest income.

9. PROPERTY, PLANT, AND EQUIPMENT

Property and equipment consists of the following at July 31:

Land	$ 2,028,483	$ 2,920,331
Buildings	150,842,775	156,623,724
Equipment	16,235,212	15,987,078
Improvements other than buildings	9,987,103	9,593,370
Library books/microfilm/antiquities	14,263,995	14,086,829
	193,357,568	199,211,332
Less accumulated depreciation	(67,390,904)	(66,359,010)
Total	$ 125,966,664	$ 132,852,322

Buildings include construction in progress for existing facilities totaling $908,321 at July 31, 2019.

10. EMPLOYEE BENEFITS

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary's contribution for the years ended July 31, 2019 and 2018, was $1,009,198 and $1,091,495, respectively.

Postretirement and Postemployment Benefits

The Seminary provides postretirement benefits to retired employees. The following table sets forth the future obligations at July 31:

Accumulated benefit costs	$ 1,252,610	$ 946,881
Employer contributions (benefit paid)	(65,100)	(61,400)
Net periodic benefit cost	50,315	103,454
Comprehensive Income	(320,514)	317,796
Discount rate assumed	3.25%	4.03%

The Seminary provides postemployment benefits to retired employees. The following table sets forth the future obligations at July 31:

Accumulated benefit costs	$ 485,225	$ 505,725
Employer contributions (benefit paid)	(49,122)	(50,798)
Net periodic benefit cost	28,622	20,366
Discount rate assumed	3.22%	4.04%

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

11. NET ASSETS

	2019	2018
Net assets without donor restrictions:		
Current operations	$ (14,697,116)	$ (12,468,923)
Notes payable	(18,528,414)	(19,322,037)
Endowment	13,310,454	14,540,873
Invested in property, plant and equipment	125,966,664	132,953,622
Unfunded postretirement benefits	(1,252,610)	(946,881)
Unfunded postemployment benefits	(485,225)	(505,725)
Total net assets without donor restrictions	$ 104,313,753	$ 114,250,929
Net assets with donor restrictions, temporary in nature and met by passage of time consists of the following:		
Capital projects	$ 4,101,177	$ 162,827
Scholarships	9,224,479	9,621,783
Other	2,105,974	5,316,356
Total net assets, temporary in nature	$ 15,431,630	$ 15,100,966
Net assets with donor restrictions, perpetual in nature and stipulated by the donor consists of the following:		
Annuity and life income funds	$ 4,882,470	$ 4,712,498
Endowment funds	121,007,398	120,731,273
Other	759,440	484,335
Total net assets, perpetual in nature	126,649,308	125,928,106
Total net assets with donor restrictions	142,080,938	141,029,072
Total net assets	$ 246,394,691	$ 255,280,001

Net assets released during the years ended July 31 are for the following purposes:

	2019	2018
Capital projects	$ (3,539,029)	$ 9,518,820
Scholarships	5,325,612	5,442,376
Other	3,672,009	345,993
Total net assets released	$ 5,458,592	$ 15,307,189

12. ENDOWMENT INVESTMENTS

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 net assets with donor restricted funds that the Seminary must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce returns that equal inflation plus annual distribution, while assuming moderate levels of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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 Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment fund's average fair value based on a 16 quarter moving average of portfolio values. This is consistent with the Seminary's objective to maintain purchasing power of endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist entities throughout the United States. These entities do not report net assets with donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Organization as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

Underwater Funds - From time to time, the market value of assets associated with individual donor-restricted endowment funds may fall below the original gift value (become "underwater"). In accordance with GAAP and the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), deficiencies of this nature are classified in net assets with donor restrictions. As of July 31, 2019, material deficiencies (5.0% or greater) of this nature exist in 260 donor-restricted endowment funds, which together have a original gift value of $23,123,500 and a market value of $18,800,100. These deficiencies resulted primarily from unfavorable market conditions that occurred shortly after the investment of new perpetually restricted contributions, along with continuing distributions for the program purposes designated by the donors.

Restrictions - Endowment investments are either net assets with donor restrictions or net assets without donor restrictions. Donor contributions and earnings that are permanently reinvested at donor direction, and earnings from funds held in trust by others are treated as net assets with donor restrictions. Other market value changes, whether realized or unrealized gains and losses or income (net of expenses) of donor-restricted endowments and all board-designated endowments are placed in the unrestricted category.

Endowments as of July 31, 2019, are composed of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 12,871,372	$ 121,373,822	$ 134,245,194
Board-designated	439,082	-	439,082
Total	$ 13,310,454	$ 121,373,822	$ 134,684,276

The change in endowments for the year ended July 31, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of the period	$ 14,540,873	$120,731,273	$ 135,272,146
Investment gain	(1,278,419)	(907,739)	(2,186,158)
Contributions	48,000	1,550,288	1,598,288
End of period	$ 13,310,454	$121,373,822	$ 134,684,276

Endowments as of July 31, 2018, are composed of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 14,155,234	$120,731,273	$ 134,886,507
Board-designated	385,639	-	385,639
Total	$ 14,540,873	$120,731,273	$ 135,272,146

The change in endowments for the year ended July 31, 2018, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of the period	$ 14,297,168	$114,949,793	$ 129,246,961
Investment gain	243,705	3,958,086	4,201,791
Contributions	-	1,823,394	1,823,394
End of period	$ 14,540,873	$120,731,273	$ 135,272,146

13. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Seminary uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Valuations based on inputs, other than quoted prices included in Level 1, which are observable either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair values for money market funds, equities, mutual funds, and closed-end funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

Fair values for investment in partnerships have been estimated using the net asset value (NAV) per share of the investments as provided by the fund managers. Individual fund managers rely on a variety of inputs that are available according to the type of investment strategy in use.

Multi-strategy and long/short hedge funds typically utilize the NAV provided by the underlying investee. The Valuation Committee established by each fund manager also takes into account information provided within audited and unaudited financial statements and performance reports of the underlying investee. In addition, third party valuation services, broker quotes, estimates, and other alternative valuation techniques may be utilized by the fund's Valuation Committee.

Structured credit fund portfolio investments are primarily in the form of debt investments that are not publicly traded. The fair value of these securities is not readily determinable. These investments are valued on at least a quarterly basis in accordance with a valuation policy which is, at all times, consistent with accounting principles generally accepted in the United States (US GAAP). The Board of Directors or Valuation Committee determines the fair value in good faith based on the input of their Investment Advisor and the respective third-party valuation firms.

Private equity funds fair values are supported by information received from the investee funds such as monthly net asset values, investor reports, and audited financial statements, when available. The fund Valuation Committee may consider other factors, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

Investments by category level at July 31, 2019, are as follows.

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$ 64,551,795	$ 63,543,011	$ -	$ 1,008,784
Annuities, net	4,882,469	4,882,469	-	-
Other Investments	91,854	91,854	-	-
Total investments subject to fair value hierarchy	69,526,118	$ 68,517,334	$ -	$ 1,008,784
Investments measured at net asset value	70,132,480			
Total	$139,658,598			

Investments by category level at July 31, 2018, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$121,901,534	$120,338,666	$ -	$ 1,562,868
Annuities, net	4,712,498	4,712,498	-	-
Other Investments	586,634	586,634	-	-
Total investments subject to fair value hierarchy	127,200,666	$125,637,798	$ -	$ 1,562,868
Investments measured at net asset value	13,370,613			
Total	$140,571,279			

The changes in investment in partnerships, which are measured at fair value on a recurring basis using significant unobservable inputs, are as follows:

Balance at July 31, 2017	$ 2,113,753
Redemptions	(915,938)
Subscriptions	101,648
Change in estimated fair value	263,405
Balance at July 31, 2018	1,562,868
Redemptions	(622,827)
Subscriptions	41,693
Change in estimated fair value	27,050
Balance at July 31, 2019	$ 1,008,784

14. NOTES PAYABLE

In fiscal year 2012, the Seminary entered into a financing arrangement ("Loan") with a bank, for the purpose of paying for construction of 252 new student housing units. The Loan is structured with $16,000,000 of tax-exempt bonds and a $7,000,000 taxable loan with the bank. The tax-exempt portion of the loan is amortized over 20 years, with the final payment due December 15, 2021. Interest calculation is based upon 65% of the 90-day LIBOR rate plus 156 basis points. The 90-day LIBOR rate is 2.27% and 1.31% at July 31, 2019 and 2018, respectively. From December 2011 to December 2013, quarterly payments were for interest only, with both principal reduction and interest payments beginning in January 2014. The taxable portion of the loan was due December 30, 2018, with interest calculated as 90-day LIBOR rate plus 200 basis points. This portion of the Loan was renewed and extended to mature on December 15, 2021, with the same interest provision. The Loan is secured with deeds of trust on land and buildings, with a net book value of $25,837,137 in Fort Worth, Texas.

Scheduled principal payments and total loans outstanding at July 31, 2019, for the following three years ended July 31, and thereafter are as follows:

2020	$ 782,186
2021	809,620
2022	16,875,758
Total scheduled payments	18,467,564
Liability on swap agreement	132,850
Debt issue cost	(72,000)
Total amount outstanding	$ 18,528,414

The Seminary entered into an interest rate swap as a hedge against exposure to variances in interest rates applied to the loans. The differential interest required to be paid or that will be received under these agreements is accrued consistent with the terms of the agreements and is recognized in the Statements of Activities and included in these Notes Payable. The interest rate for the bonds is established quarterly based upon 65% of the 90-Day LIBOR plus 1.56% (3.04% and 2.41% at July 31, 2019 and 2018, respectively). The notional principal amount of the swap agreements are $10,000,000 and $6,000,000. The agreements effectively fix the Seminary's interest rate exposure at 3.25% for a period of ten years ending December 2021.

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the Statements of Financial Position. Accordingly, $132,850 and $(57,236), which is representative of the value of the swap agreements at July 31, 2019 and 2018, respectively, is included in Notes Payable on the Statement of Financial Position. Value has been measured based on an estimate of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying the valuation models.

The Seminary paid interest for the years ending July 31, 2019 and 2018, of $828,437 and $718,412, respectively.

The Southwestern Baptist Theological Seminary

Consolidated Financial Statements

as of

July 31, 2020 and 2019

Together With

Independent Auditors' Report

GUINN, SMITH & CO. INC.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditors' Report

To the Board of Trustees
The Southwestern Baptist Theological Seminary
Fort Worth, Texas

We have audited the accompanying consolidated financial statements of The Southwestern Baptist Theological Seminary (a Texas nonprofit corporation) which comprise the consolidated statements of financial position as of July 31, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Southwestern Baptist Theological Seminary, as of July 31, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Guinn, Smith & Co. Inc

Irving, Texas
October 15, 2020

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
July 31, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Assets:			
Cash and cash equivalents	$ 12,043,556	$ -	$ 12,043,556
Accounts receivables, net	1,081,361	-	1,081,361
Unconditional promises to give, net	-	235,749	235,749
Other assets	422,458	-	422,458
Notes receivable	28,374	-	28,374
Investments:			
Endowment funds	2,986,662	123,200,076	126,186,738
Split-interest funds	-	15,379,687	15,379,687
Other investments	5,220	-	5,220
Total investments	2,991,882	138,579,763	141,571,645
Due from (to) other funds	(20,027,830)	20,027,830	-
Property, plant, and equipment, net	126,003,202	-	126,003,202
Total assets	$122,543,003	$158,843,342	$281,386,345
Liabilities and net assets:			
Liabilities:			
Accounts payable	$ 1,466,609	$ -	$ 1,466,609
Accrued salaries and benefits	932,795	-	932,795
Deposits and agency funds	887,785	-	887,785
Deferred income	362,812	-	362,812
Notes payable	22,020,389	-	22,020,389
Liability under annuity contracts	-	10,719,221	10,719,221
Accrued postretirement benefit obligation	953,494	-	953,494
Accrued postemployment benefit obligation	441,508	-	441,508
Total liabilities	27,065,392	10,719,221	37,784,613
Net assets	95,477,611	148,124,121	243,601,732
Total liabilities and net assets	$122,543,003	$158,843,342	$281,386,345

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
July 31, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Assets:			
Cash and cash equivalents	$ 1,247,339	$ -	$ 1,247,339
Accounts receivables, net	890,625	-	890,625
Unconditional promises to give, net	-	1,319,799	1,319,799
Other assets	367,163	-	367,163
Notes receivable	396,560	-	396,560
Investments:			
Endowment funds	13,310,454	121,373,822	134,684,276
Split-interest funds	-	15,093,338	15,093,338
Other investments	91,854	-	91,854
Total investments	13,402,308	136,467,160	149,869,468
Due from (to) other funds	(14,504,849)	14,504,849	-
Property, plant, and equipment, net	125,966,664	-	125,966,664
Total assets	$127,765,810	$152,291,808	$280,057,618
Liabilities and net assets:			
Liabilities:			
Accounts payable	$ 1,339,574	$ -	$ 1,339,574
Accrued salaries and benefits	630,017	-	630,017
Deposits and agency funds	935,136	-	935,136
Deferred income	281,081	-	281,081
Notes payable	18,528,414	-	18,528,414
Liability under annuity contracts	-	10,210,870	10,210,870
Accrued postretirement benefit obligation	1,252,610	-	1,252,610
Accrued postemployment benefit obligation	485,225	-	485,225
Total liabilities	23,452,057	10,210,870	33,662,927
Net assets	104,313,753	142,080,938	246,394,691
Total liabilities and net assets	$127,765,810	$152,291,808	$280,057,618

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Year Ended July 31, 2020

	2020		
Changes in net assets:	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other additions:			
Tuition and fees	$ 14,959,734	$ -	$ 14,959,734
Scholarship and fellowships	(5,507,188)	-	(5,507,188)
Gifts:			
Cooperative Program	7,377,175	-	7,377,175
Student aid	-	3,162,343	3,162,343
Endowment	48,000	1,860,122	1,908,122
Other	3,746,978	1,009,806	4,756,784
Investment return	(2,094,860)	6,395,256	4,300,396
Change in value of split interest funds	-	(454,157)	(454,157)
Auxiliary enterprises	5,257,042	-	5,257,042
Other	1,665,499	-	1,665,499
Net assets released from restriction	5,930,187	(5,930,187)	-
Total revenue	31,382,567	6,043,183	37,425,750
Expenses and other deductions:			
Academic and student programs	15,988,696	-	15,988,696
Administrative support	11,096,297	-	11,096,297
Auxiliaries	6,896,986	-	6,896,986
Facilities operation and maintenance	5,768,817	-	5,768,817
Total operating expenses	39,750,796	-	39,750,796
Change in net assets from operating activities	(8,368,229)	6,043,183	(2,325,046)
Loss on disposal of property	(467,913)	-	(467,913)
Change in net assets	(8,836,142)	6,043,183	(2,792,959)
Net assets, beginning of year	104,313,753	142,080,938	246,394,691
Net assets, end of year	$ 95,477,611	$148,124,121	$243,601,732

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Activities
For the Year Ended July 31, 2019

Changes in net assets:	2019 Without Donor Restrictions	2019 With Donor Restrictions	2019 Total
Revenues and other additions:			
Tuition and fees	$ 13,051,740	$ -	$ 13,051,740
Scholarship and fellowships	(5,313,386)	-	(5,313,386)
Gifts:			
Cooperative Program	7,631,157	-	7,631,157
Student aid	-	2,646,810	2,646,810
Endowment	48,000	1,615,968	1,663,968
Other	987,620	910,282	1,897,902
Investment return	3,183,970	1,395,435	4,579,405
Change in value of split interest funds	-	(58,037)	(58,037)
Auxiliary enterprises	5,668,690	-	5,668,690
Other	778,670	-	778,670
Net assets released from restriction	5,458,592	(5,458,592)	-
Total revenue	31,495,053	1,051,866	32,546,919
Expenses and other deductions:			
Academic and student programs	17,514,481	-	17,514,481
Administrative support	9,074,448	-	9,074,448
Auxiliaries	8,186,186	-	8,186,186
Facilities operation and maintenance	3,322,475	-	3,322,475
Total operating expenses	38,097,590	-	38,097,590
Change in net assets from operating activities	(6,602,537)	1,051,866	(5,550,671)
Loss on sale of property	(3,334,639)	-	(3,334,639)
Change in net assets	(9,937,176)	1,051,866	(8,885,310)
Net assets, beginning of year	114,250,929	141,029,072	255,280,001
Net assets, end of year	$104,313,753	$142,080,938	$246,394,691

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows
For the Years Ended July 31, 2020 and 2019

Change in cash and cash equivalents:	2020	2019
Change in net assets	$ (2,792,959)	$ (8,885,310)
Adjustments to reconcile change in net assets to net cash utilized by operating activities:		
Depreciation and amortization of debt issue cost	4,069,899	4,186,531
Contributions restricted for endowment and acquisition of long-term assets	(2,200,374)	(2,107,975)
(Gain) loss on disposal of fixed assets	469,003	3,334,639
Non-cash contributions	(664,810)	(518,753)
Change in value of swap liability	117,662	190,086
Net unrealized and realized (gain) loss on investments	(1,232,660)	388,562
Investment income	(1,327,950)	(1,189,584)
Change in value of split-interest funds	1,166,717	196,195
Changes in operating assets and liabilities:		
Receivables	(190,736)	(147,101)
Unconditional promises to give	1,084,051	1,084,549
Other assets	(55,295)	35,266
Accounts payable	(34,090)	(98,230)
Other accrued expenses	255,427	227,940
Deferred income	81,731	80,948
Accrued postretirement benefit obligation	(299,116)	305,729
Accrued postemployment benefit obligation	(43,717)	(20,500)
Total adjustments	1,195,742	5,948,302
Net cash utilized by operating activities	(1,597,217)	(2,937,008)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	20,334,143	76,415,136
Proceeds from notes receivable	368,186	375,807
Purchase of investments	(9,469,266)	(74,378,877)
Proceeds from sale of property and equipment	3,300	1,588,472
Investment in construction in progress	(2,724,242)	(735,932)
Purchase of property, plant, and equipment	(1,669,374)	(1,290,972)
Net cash provided by investing activities	6,842,747	1,973,634
Cash flows from financing activities:		
Proceeds from issuance of notes payable	8,150,500	-
Principal payments on notes payable	(4,800,187)	(1,007,709)
Contributions restricted for endowments and acquisition of long-term assets	2,200,374	2,107,975
Net cash provided by financing activities	5,550,687	1,100,266
Net increase in cash and cash equivalents	10,796,217	136,892
Cash and cash equivalents, beginning of year	1,247,339	1,110,447
Cash and cash equivalents, end of year	$ 12,043,556	$ 1,247,339

The accompanying notes are an integral part of these financial statements.

1. NATURE OF ORGANIZATION

The Southwestern Baptist Theological Seminary, (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The primary purpose of the Seminary is to provide theological education for individuals engaging in Christian ministry. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the Southern Baptist Convention (SBC) and is an entity of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Seminary consolidates the accounts of Southwestern Seminary Foundation ("Foundation"), Texas non-profit corporation. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage a portion of the Seminary's endowment portfolio. Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of Foundation, all assets shall inure to the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

These financial statements of the Seminary have been prepared and are presented in conformity with accounting principles generally accepted in the United States of America (GAAP). The Seminary is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Seminary. These net assets may be used at the discretion of the Seminary's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Seminary by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Basis of Accounting

The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenue and Support

Revenues and support for the Seminary are primarily derived from tuition, fees, and contributions from donors and supporters of the Seminary. Contributions received are recorded as net assets with donor restrictions and net assets without donor restrictions depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions

The Seminary reports gifts of cash and other assets as net asset with donor restrictions if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time net assets with donor restrictions are reclassified to net assets without donor restrictions. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as net assets without donor restrictions revenue.

The Seminary reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue Recognition

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

Investment returns on endowment and similar funds are reported as follows:

- as changes in net assets with donor restrictions if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in net assets with donor restrictions if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in net assets without donor restrictions in all other cases.

Donated Assets

Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment, or expense account. In the absence of donor restrictions, donated assets are reported as revenue without donor restrictions.

Donated Services

Occasionally, the Seminary receives support in the form of donated services. Those services are recognized as revenue without donor restrictions if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 31, 2020 and 2019.

Classification of Revenue and Expenses

Operating activities include items which are directly related to the Organization's program activities or are essential support elements of those programs. Depreciation and interest expense have been allocated to related operating activities. Interest income and gains or losses on disposals of assets or liabilities do not meet the Organization's criteria for operating activities and are included with other revenue and expenses.

Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant estimates included in these financial statements are depreciation, the valuation of certain level 3 investments, the interest rate swap agreement, the accrued benefit obligations, and allocation of certain expenses.

Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Seminary currently invests primarily in common stock, mutual funds and partnerships. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

Programs

The Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Academic and student	-	providing a biblically-based education for undergraduate, graduate, and postgraduate degrees in theology, church music and worship, educational ministries, and evangelism and missions; along with campus life activities, placement and employment services
Auxiliary enterprises	-	providing housing, dining, recreational, and other services to students and staff
Administrative support	-	providing support for program activities and general operations
Facilities operations	-	providing for maintenance and care of facilities, grounds, and equipment

Cash and Cash Equivalents

For the purposes of financial reporting, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

Accounts Receivable

The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of each term. Amounts are reported net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the term are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Typically, students whose accounts are not current are not allowed to enroll in future classes. Allowance for doubtful accounts for the years ended July 31, 2020 and 2019, was $779,005 and $347,865, respectively.

Investments

Investments in debt, equity securities, and mineral rights are stated at fair value. The net realized and unrealized gains and losses on investments are reflected in the Statement of Activities. Investments received by gift or bequest are recorded at fair value at the date of effective receipt. If fair value is not determinable at date of effective receipt, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

The Seminary is the beneficiary of certain perpetual trusts held and administered by third parties. Distributions from the trusts are recorded as endowment income and the carrying value of the investments is the current market value of underlying assets.

Fair Value Measurements

The Seminary follows FASB Accounting Standards Codification Topic 820, *Fair Value Measurement.* Topic 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

The Seminary adopted the provisions of Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its equivalent)*. ASU No. 2015-07 amends ASC Topic 820, *Fair Value Measurement*, to remove the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. The information provided in Note 14 in these financial statements has been updated to comply with the provisions of this ASU.

Split-Interest Agreements

The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized at the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the Statement of Activities as a change in value of split-interest agreements. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions used by trustees of the agreements.

Advertising Costs

The Seminary uses advertising to promote its major programs to the general public. The costs of advertising are expensed as incurred. Advertising expense was $406,271 and $266,742 for the years ended July 31, 2020 and 2019, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30-40 years
Equipment	5-10 years
Improvements other than buildings	30 years

Impairment of Long-lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Unconditional Promises to Give

The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectability and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences

Employees of the Seminary are entitled to paid vacation leave depending upon their length of service and other factors. Compensated absences for vacation leave have not been accrued since they cannot be reasonably estimated. The Seminary's policy is to recognize these costs when actually paid.

Interest Rate Swap Agreement

The Seminary uses a derivative to manage risks related to interest rate movements. The Seminary's interest-rate swap contracts are reported at fair value. The change in the swap contract's fair value is reported as a gain or loss in the Statement of Activities. The Seminary's risk management strategy is to stabilize cash flow requirements by maintaining a swap contract which effectively converts variable-rate debt to a fixed rate.

New Accounting Pronouncements

In 2019, the Seminary adopted ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

On July 1, 2019, the Seminary adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which outlines a single comprehensive standard for revenue recognition across all industries and supersedes most existing revenue recognition guidance. In addition, ASU 2014-09 requires new enhanced disclosures. These changes do not have a material impact of the Seminary's financial statements and have been applied to the financial statements and footnotes on a modified retrospective basis.

3. LIQUIDITY AND AVAILABLE RESOURCES

The following represents the Seminary's financial assets at July 31, 2020 and 2019:

	2020	2019
Cash and cash equivalents	$ 12,043,556	$ 1,247,339
Accounts and contributions receivable	1,317,110	2,210,424
Notes receivable	28,374	396,560
Investments	63,642,546	71,546,527
Endowments held in perpetuity by others	62,549,412	63,229,603
Annuities and trusts held by others	15,379,687	15,093,338
Other assets	422,458	367,163
Total financial assets	155,383,143	154,090,954
Amounts not available to be used within one year, due to:		
Contribution and accounts receivable	$ (120,000)	$ (240,000)
Perpetual and term endowments and accumulated earnings not convertible to cash within the next 12 months	(60,442,000)	(68,174,674)
Endowments held in perpetuity by others not convertible to cash within the next 12 months	(59,749,000)	(60,229,603)
Investments held in trusts and various state required annuity reserves	(15,379,687)	(15,093,338)
Investments in board designated endowments	(470,872)	(439,082)
Total amounts not available to be used within one year	(136,161,559)	(144,176,697)
Financial assets available to meet general expenditures over the next twelve months	$ 19,221,584	$ 9,914,257

Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, perpetual endowments, or because the governing board has set aside the funds for specific contingency reserves and projects or a long-term investment as board designated endowments. The Seminary structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Seminary also has an unsecured $3,000,000 line of credit, which was not drawn upon at July 31, 2020. The line of credit matures on January 19, 2021. The interest rate is LIBOR, with interest due monthly and principal due upon maturity.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Seminary's only customers are its students. All revenue associated with students are education-related charges (tuition and fees). The performance obligations associated with these contracts consist of providing professional instruction in course subject matter for the associated academic term, assigning a grade consistent with the student's performance, and recording that grade in an official permanent transcript. Even though the Seminary provides the contracted educational services over the period of the academic term, generally, no refunds are available to students after the second week of classes. Therefore, the Seminary fully recognizes revenue from these contracts in the first accounting period of each academic term.

5. FUNCTIONAL EXPENSES

Operating activities include items which are directly related to the Seminary's program services or are essential support elements of those programs. The costs of providing the Seminary's various programs and supporting services have been summarized in the table below, which reports certain categories of expenses that are attributable to more than one program or supporting activity. Accordingly, these expenses have been allocated among the programs and supporting services benefited using allocation bases determined by management and that are reasonable and consistently applied. Interest income and gains or losses on disposals of assets or liabilities do not meet the Seminary's criteria for operating activities and are included with other non-operating activities.

Total expenses include all operating expenses and net periodic pension cost.

	2020				
	Program Activities		Supporting Activities		
	Academic and student programs	Auxiliaries	Administrative Support	Facilities Operation and Maintenance	Total expenses
Salaries and wages	$ 8,911,564	$ 1,159,529	$ 4,674,477	$ 2,627,295	$ 17,372,865
Employee benefits	3,023,536	375,604	2,201,472	754,449	6,355,061
Depreciation and amortization	-	-	-	4,045,899	4,045,899
Services, supplies, and other	1,717,337	623,340	2,209,086	1,228,542	5,778,305
Occupancy, utilities, and maintenance	91,135	1,209,059	1,823,029	2,261,814	5,385,037
Interest	-	837,653	21,625	-	859,278
Transfer between functions	121,027	1,026,104	18,123	(1,210,903)	(45,649)
Depreciation and amortization, allocated by function	2,124,097	1,665,697	148,485	(3,938,279)	-
Total expenses	$ 15,988,696	$ 6,896,986	$ 11,096,297	$ 5,768,817	$ 39,750,796

	2019				
	Program Activities		Supporting Activities		
	Academic and student programs	Auxiliaries	Administrative Support	Facilities Operation and Maintenance	Total expenses
Salaries and wages	$ 10,227,381	$ 1,551,964	$ 3,587,227	$ 2,417,508	$ 17,784,080
Employee benefits	2,875,920	347,233	1,748,258	517,126	5,488,537
Depreciation and amortization	-	-	-	4,162,532	4,162,532
Services, supplies, and other	1,950,154	686,874	2,161,513	(37,951)	4,760,590
Occupancy, utilities, and maintenance	236,979	1,037,553	1,711,651	1,884,147	4,870,330
Interest	-	1,018,523	7,701	-	1,026,224
Transfer between functions	38,703	1,830,485	(294,664)	(1,569,227)	5,297
Depreciation and amortization, allocated by function	2,185,344	1,713,554	152,762	(4,051,660)	-
Total expenses	$ 17,514,481	$ 8,186,186	$ 9,074,448	$ 3,322,475	$ 38,097,590

6. UNCONDITIONAL PROMISES TO GIVE

Scheduled maturities of unconditional promises to give at July 31, are as follows:

	2020	2019
Less than one year	$ 120,000	$ 1,122,000
One to five years	120,000	240,000
Total unconditional promises to give	240,000	1,362,000
Unamortized discount at 1.20% and 2.53%, respectively	(4,251)	(42,201)
Net unconditional promises to give	$ 235,749	$ 1,319,799

7. FUNDRAISING ACTIVITIES

Fundraising expense for the years ended July 31, 2020 and 2019, was $1,373,574 and $964,296, respectively, These expenses are included in institutional support in the accompanying Statement of Activities.

8. COOPERATIVE PROGRAM

One significant source of Seminary revenue is the Cooperative Program of the SBC. Churches participating in the Cooperative Program contribute to the SBC, which passes funds (according to an allocation formula) to the Seminary and other entities. The Seminary received $7,377,175 and $7,631,157 from the SBC for the years ended July 31, 2020 and 2019, respectively.

Distributions by state, as provided by the SBC Executive Committee for years ended July 31, are as follows:

	2020	2019
Alabama	$ 708,662	$ 736,304
Alaska	4,595	6,831
Arizona	47,222	43,711
Arkansas	357,302	363,196
California	71,854	85,480
Colorado	24,832	27,063
Dakota	4,383	3,782
Florida	558,855	577,578
Georgia	615,323	602,768
Hawaii Pacific	9,834	9,253
Illinois	86,946	91,252
Indiana	29,833	34,585
Iowa	15,166	13,379
Kansas-Nebraska	30,127	31,768
Kentucky	370,345	387,797
Louisiana	248,356	269,664
Maryland-Delaware	61,682	66,243
Michigan	12,032	12,324
Minnesota-Wisconsin	8,452	9,186
Mississippi	455,353	479,113
Missouri	225,246	227,339
Montana	7,309	7,628
Nevada	18,768	24,309
New England	7,802	8,381
New Mexico	41,039	32,579
New York	8,896	9,432
North Carolina	440,409	449,477
Northwest	22,224	26,762
Ohio	86,989	84,594
Oklahoma	387,391	390,330
Pennsylvania-South Jersey	11,727	13,400
Puerto Rico/U.S. Virgin Islands	228	276
South Carolina	414,902	427,287
Tennessee	607,935	616,876
Texas-BGCT	380,902	402,974
Texas-SBTC	557,577	590,174
Utah-Idaho	8,485	8,364
Virginia-BGAV	32,243	30,615
Virginia-SBCV	177,686	178,569
West Virginia	18,418	21,482
Wyoming	4,138	4,251
	7,181,468	7,406,376
Churches and individuals	195,707	224,781
Total Cooperative Program Allocation	$ 7,377,175	$ 7,631,157

9. INVESTMENTS

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following as of July 31:

	2020	2019
Money market funds	$ 542,922	$ 477,197
Equity securities	-	20,204
Private equity	615,482	1,008,784
Other Foundations and 3rd party trusts	78,055,029	78,230,803
	79,213,433	79,736,988
Investments measured at net asset value	62,358,212	70,132,480
Investments, net of restricted cash	$ 141,571,645	$ 149,869,468

The "Investments measured at net asset value" and "Private equity" categories include interest in certain limited partnerships and limited liability corporations and is carried at fair value as provided by the investment managers. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material. Certain partnership agreements are restricted as to resale and may require advance notice for redemption or withdrawal.

The Seminary's investments in partnerships is subject to various risk factors arising from the investment activities of the underlying instruments of the partnerships, including market, credit, and currency risk. The Seminary's risk of loss as of July 31, 2020 and 2019, in any of its investment partnerships is limited to the value of the investment at July 31, 2020 and 2019. Investment fees are netted against dividend and interest income.

The following schedule details investment returns for the years ended July 31:

Dividend and interest income	$ 3,372,187	$ 4,821,657
Net realized gains on investments	3,079,203	8,361,491
Net unrealized gain (loss) on investments	(2,150,994)	(8,603,743)
Total	$ 4,300,396	$ 4,579,405

10. PROPERTY, PLANT, AND EQUIPMENT

Property and equipment consists of the following at July 31:

Land	$ 2,028,483	$ 2,028,483
Buildings	152,706,805	150,842,775
Equipment	16,474,777	16,235,212
Improvements other than buildings	11,746,059	9,987,103
Library books/microfilm/antiquities	14,385,662	14,263,995
	197,341,786	193,357,568
Less accumulated depreciation	(71,338,584)	(67,390,904)
Total	$ 126,003,202	$ 125,966,664

Buildings include construction in progress for existing facilities totaling $2,884,888 at July 31, 2020.

11. EMPLOYEE BENEFITS

Defined Contribution Retirement Plan

The Seminary provides its officers, permanent faculty and career employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary contributes 10% of the participant's salary to the plan and also matches the participant's contributions up to a maximum of 5% of their salary. The Seminary's contribution for the years ended July 31, 2020 and 2019, was $1,461,701 and $1,009,198, respectively.

Postretirement and Postemployment Benefits

The Seminary provides postretirement benefits to retired employees. The following table sets forth the future obligations at July 31:

	2020	2019
Accumulated benefit costs	$ 953,494	$ 1,252,610
Employer contributions (benefit paid)	(65,300)	(65,100)
Net periodic benefit cost	83,681	50,315
Comprehensive Income	(317,497)	(320,514)
Discount rate assumed	1.97%	3.25%

The Seminary provides postemployment benefits to retired employees. The following table sets forth the future obligations at July 31:

Accumulated benefit costs	$ 441,508	$ 485,225
Employer contributions (benefit paid)	(44,794)	(49,122)
Net periodic benefit cost	1,077	28,622
Discount rate assumed	2.23%	3.22%

12. NET ASSETS

Net assets without donor restrictions:

Current operations	$ (10,096,862)	$ (14,697,116)
Notes payable	(22,020,389)	(18,528,414)
Endowment	2,986,662	13,310,454
Invested in property, plant and equipment	126,003,202	125,966,664
Unfunded postretirement benefits	(953,494)	(1,252,610)
Unfunded postemployment benefits	(441,508)	(485,225)
Total net assets without donor restrictions	$ 95,477,611	$ 104,313,753

Net assets with donor restrictions, temporary in nature and met by passage of time consists of the following:	2020	2019
Capital projects	$ 4,115,741	$ 4,101,177
Scholarships	13,463,557	9,224,479
Other	2,607,431	2,105,974
Total net assets, temporary in nature	$ 20,186,729	$ 15,431,630

Net assets with donor restrictions, perpetual in nature and stipulated by the donor consists of the following:

Annuity and life income funds	$ 4,660,466	$ 4,882,470
Endowment funds	123,200,076	121,007,398
Other	76,850	759,440
Total net assets, perpetual in nature	127,937,392	126,649,308
Total net assets with donor restrictions	148,124,121	142,080,938
Total net assets	$ 243,601,732	$ 246,394,691

Net assets released during the years ended July 31 are for the following purposes:

Capital projects	$ 199,004	$ (3,539,029)
Scholarships	5,509,838	5,325,612
Other	221,345	3,672,009
Total net assets released	$ 5,930,187	$ 5,458,592

13. ENDOWMENT INVESTMENTS

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 net assets with donor restricted funds that the Seminary must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce returns that equal inflation plus annual distribution, while assuming moderate levels of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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 Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment funds average fair value based on a 16 quarter moving average of portfolio values. This is consistent with the Seminary's objective to maintain purchasing power of endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist entities throughout the United States. These entities do not report net assets with donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Organization as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

Underwater Funds - From time to time, the market value of assets associated with individual donor-restricted endowment funds may fall below the original gift value (become "underwater"). In accordance with GAAP and the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), deficiencies of this nature are classified in net assets with donor restrictions. As of July 31, 2020 and 2019, material deficiencies (5.0% or greater) of this nature exist in 437 and 260 donor-restricted endowment funds, respectively, which together have a original gift value of $41,721,105 and $23,123,500, respectively, and a market value of $32,245,795 and $18,800,100, respectively. These deficiencies resulted primarily from unfavorable market conditions that occurred shortly after the investment of new perpetually restricted contributions, along with continuing distributions for the program purposes designated by the donors.

Restrictions - Endowment investments are either net assets with donor restrictions or net assets without donor restrictions. Donor contributions and earnings that are permanently reinvested at donor direction, and earnings from funds held in trust by others are treated as net assets with donor restrictions. Other market value changes, whether realized or unrealized gains and losses or income (net of expenses) of donor-restricted endowments and all board-designated endowments are placed in the unrestricted category.

Endowments as of July 31, 2020, are composed of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 2,515,790	$ 123,200,076	$ 125,715,866
Board-designated	470,872	-	470,872
Total	$ 2,986,662	$ 123,200,076	$ 126,186,738

The change in endowments for the year ended July 31, 2020, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of the period	$ 13,310,454	$ 121,373,822	$ 134,684,276
Change in investment	(10,371,792)	(33,868)	(10,405,660)
Contributions	48,000	1,860,122	1,908,122
End of period	$ 2,986,662	$ 123,200,076	$ 126,186,738

Endowments as of July 31, 2019, are composed of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 12,871,372	$ 121,373,822	$ 134,245,194
Board-designated	439,082	-	439,082
Total	$ 13,310,454	$ 121,373,822	$ 134,684,276

The change in endowments for the year ended July 31, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of the period	$ 14,540,873	$ 120,731,273	$ 135,272,146
Change in investment	(1,278,419)	(907,739)	(2,186,158)
Contributions	48,000	1,550,288	1,598,288
End of period	$ 13,310,454	$ 121,373,822	$ 134,684,276

14. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Seminary uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Seminary has the ability to access.

Level 2 – Valuations based on inputs, other than quoted prices included in Level 1, which are observable either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair values for money market funds, equities, mutual funds, and closed-end funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

Fair values for investment in partnerships have been estimated using the net asset value (NAV) per share of the investments as provided by the fund managers. Individual fund managers rely on a variety of inputs that are available according to the type of investment strategy in use.

Multi-strategy and long/short hedge funds typically utilize the NAV provided by the underlying investee. The Valuation Committee established by each fund manager also takes into account information provided within audited and unaudited financial statements and performance reports of the underlying investee. In addition, third party valuation services, broker quotes, estimates, and other alternative valuation techniques may be utilized by the fund's Valuation Committee.

Structured credit fund portfolio investments are primarily in the form of debt investments that are not publicly traded. The fair value of these securities is not readily determinable. These investments are valued on at least a quarterly basis in accordance with a valuation policy which is, at all times, consistent with accounting principles generally accepted in the United States (US GAAP). The Board of Directors or Valuation Committee determines the fair value in good faith based on the input of their Investment Advisor and the respective third-party valuation firms.

Private equity funds fair values are supported by information received from the investee funds such as monthly net asset values, investor reports, and audited financial statements, when available. The fund Valuation Committee may consider other factors, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

Investments by category level at July 31, 2020, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$ 63,833,746	$ 63,218,264	$ -	$ 615,482
Annuities, net	4,660,466	4,660,466	-	-
Other Investments	-	-	-	-
Total investments subject to fair value hierarchy	68,494,212	$ 67,878,730	$ -	$ 615,482
Investments measured at net asset value	62,358,212			
Total	$130,852,424			

Investments by category level at July 31, 2019, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$ 64,551,795	$ 63,543,011	$ -	$ 1,008,784
Annuities, net	4,882,469	4,882,469	-	-
Other Investments	91,854	91,854	-	-
Total investments subject to fair value hierarchy	69,526,118	$ 68,517,334	$ -	$ 1,008,784
Investments measured at net asset value	70,132,480			
Total	$139,658,598			

The changes in investment in partnerships, which are measured at fair value on a recurring basis using significant unobservable inputs, are as follows:

Balance at July 31, 2018	$ 1,562,868
Redemptions	(622,827)
Subscriptions	41,693
Change in estimated fair value	27,050
Balance at July 31, 2019	1,008,784
Redemptions	(301,718)
Subscriptions	10,792
Change in estimated fair value	(102,376)
Balance at July 31, 2020	$ 615,482

15. NOTES PAYABLE

In fiscal year 2012, the Seminary entered into a financing arrangement ("Loan") with a bank, for the purpose of paying for construction of 252 new student housing units. The Loan is structured with $16,000,000 of tax-exempt bonds and a $7,000,000 taxable loan with the bank. The tax-exempt portion of the loan is amortized over 20 years, with the final payment due December 15, 2021. Interest calculation is based upon 65% of the 90-day LIBOR rate plus 156 basis points. The 90-day LIBOR rate is .25% and 2.27% at July 31, 2020 and 2019, respectively. From December 2011 to December 2013, quarterly payments were for interest only, with both principal reduction and interest payments beginning in January 2014. The taxable portion of the loan was due December 30, 2018, with interest calculated as 90-day LIBOR rate plus 200 basis points. This portion of the Loan was renewed and extended to mature on December 15, 2021, with the same interest provision. The Loan is secured with deeds of trust on land and buildings, with a net book value of $25,043,864 in Fort Worth, Texas.

In April 2020, the Seminary obtained a 1% interest bearing Paycheck Protection Program loan through the Small Business Administration (SBA) for $4,550,500. The Paycheck Protection Program is a loan that helps businesses keep their workforce employed during the Coronavirus crisis. The Seminary is required to repay the funds in seventeen equal principal payments, of $252,806, and one final principal and interest payment of $252,999. The first payment is due in November 2020, and the final payment is due in April 2022. The Seminary applied for loan forgiveness in October 2020. The funds were used for qualifying expenses according to the SBA and management firmly believes the loan amount will be forgiven. The Seminary is currently waiting on communication from the SBA.

Scheduled principal payments and total loans outstanding at July 31, 2020, for the following two years ended July 31, and thereafter are as follows:

2021	$ 5,360,120
Thereafter	16,457,758
Total scheduled payments	21,817,878
Liability on swap agreement	250,511
Debt issue cost	(48,000)
Total amount outstanding	$ 22,020,389

The Seminary entered into an interest rate swap as a hedge against exposure to variances in interest rates applied to the loans. The differential interest required to be paid or that will be received under these agreements is accrued consistent with the terms of the agreements and is recognized in the Statements of Activities and included in these Notes Payable. The interest rate for the bonds is established quarterly based upon 65% of the 90-Day LIBOR plus 1.56% (1.72% and 3.04% at July 31, 2020 and 2019, respectively). The notional principal amount of the swap agreements are $10,000,000 and $6,000,000. The agreements effectively fix the Seminary's interest rate exposure at 3.25% for a period of ten years ending December 2021.

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the Statements of Financial Position. Accordingly, $250,511 and $132,850, which is representative of the value of the swap agreements at July 31, 2020 and 2019, respectively, is included in Notes Payable on the Statement of Financial Position. Value has been measured based on an estimate of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying the valuation models.

The Seminary paid interest for the years ending July 31, 2020 and 2019, of $716,991 and $828,437, respectively.

16. CHARITABLE GIFT ANNUITIES

The Seminary enters into split interest agreements with donors whereby, in exchange for the gift from the donor, the Seminary is obligated to provide an annuity to the donor or other designated beneficiaries during their lifetimes. At July 31, 2020, five annuities are active. The assets and liabilities associated with these annuities are accounted for as indicated in Note 2, Split-Interest Agreements.

17. LEASE COMMITMENTS

The Seminary has non-cancelable operating leases for various office equipment expiring in 2023. Lease expenses were $242,376 and $244,748 for the years ended July 31, 2020 and 2019, respectively. The Seminary's future minimum lease payments under the lease agreements are as follows for the three years ended July 31:

2021	$ 232,210
2022	221,044
2023	143,038
Total future minimum lease payments	$ 596,292

18. ACCOUNTING FOR UNCERTAIN TAX POSITIONS

The Seminary is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation, except on net income derived from unrelated business activities. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax in 2020 and 2019 as expenses exceeded revenues. The Seminary believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

19. CONTINGENCY

The Seminary is a defendant in a pending litigation, asserting claims by a former student of the Seminary, related to an alleged sexual offense occurring on Seminary property. Presently, discovery responses are ongoing according to the timelines established by law and/or by agreement of the parties. At this stage, there is no reasonable prediction of the outcome of the case, or of any potential liability of the Seminary. The Seminary has tendered the lawsuit to its insurance carrier, who is providing the Seminary a defense subject to a reservation of rights.

20. SUBSEQUENT EVENTS

The Seminary has evaluated subsequent events through October 15, 2020, the date the financial statements were available to be issued.

The Southwestern Baptist Theological Seminary

Consolidated Financial Statements

as of

July 31, 2021 and 2020

Together With

Independent Auditors' Report

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A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditors' Report

To the Board of Trustees
The Southwestern Baptist Theological Seminary
Fort Worth, Texas

We have audited the accompanying consolidated financial statements of The Southwestern Baptist Theological Seminary (a Texas nonprofit corporation) which comprise the consolidated statements of financial position as of July 31, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Southwestern Baptist Theological Seminary, as of July 31, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Guinn Smith + Co. Inc.

Irving, Texas
October 11, 2021

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Financial Position
July 31, 2021 and 2020

Assets:	2021	2020
Cash and cash equivalents	$ 6,669,447	$ 12,043,556
Accounts receivables, net	1,006,356	1,081,361
Unconditional promises to give, net	120,000	235,749
Other assets	474,334	422,458
Notes receivable	9,142	28,374
Investments:		
Endowment funds	149,795,926	126,186,738
Split-interest funds	17,200,797	15,379,687
Other investments	1,397,602	5,220
Total investments	168,394,325	141,571,645
Property, plant, and equipment, net	130,649,704	126,003,202
Total assets	$ 307,323,308	$ 281,386,345
Liabilities and net assets:		
Liabilities:		
Accounts payable	$ 1,648,684	$ 1,466,609
Accrued salaries and benefits	905,292	932,795
Deposits and agency funds	595,100	887,785
Deferred income	163,573	362,812
Notes payable	16,280,384	22,020,389
Liability under annuity contracts	11,620,565	10,719,221
Accrued postretirement benefit obligation	884,510	953,494
Accrued postemployment benefit obligation	442,935	441,508
Total liabilities	32,541,043	37,784,613
Net Assets:		
Net assets - without donor restrictions	110,687,488	95,477,611
Net assets - with donor restrictions	164,094,777	148,124,121
Total net assets	274,782,265	243,601,732
Total liabilities and net assets	$ 307,323,308	$ 281,386,345

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statement of Activities
For the Year Ended July 31, 2021

	2021		
Changes in net assets:	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other additions:			
Tuition and fees	$ 12,450,260	$ -	$ 12,450,260
Scholarship and fellowships	(5,433,964)	-	(5,433,964)
Gifts:			
Cooperative Program	7,045,972	-	7,045,972
Student aid	-	3,181,609	3,181,609
Endowment	48,000	1,681,165	1,729,165
Other	10,902,958	1,189,310	12,092,268
Investment return	14,629,154	15,379,217	30,008,371
Change in value of split interest funds	-	(886,852)	(886,852)
Auxiliary enterprises	5,169,797	-	5,169,797
Other	394,241	-	394,241
Net assets released from restriction	4,573,793	(4,573,793)	-
Total revenue	49,780,211	15,970,656	65,750,867
Expenses and other deductions:			
Academic and student programs	15,215,947	-	15,215,947
Administrative support	12,494,233	-	12,494,233
Auxiliaries	6,507,724	-	6,507,724
Facilities operation and maintenance	5,218,439	-	5,218,439
Total operating expenses	39,436,343	-	39,436,343
Change in net assets from operating activities	10,343,868	15,970,656	26,314,524
Other revenue and expenses:			
Gain on extinguishment of debt	4,550,500	-	4,550,500
Gain on disposal of property	315,509	-	315,509
Total other revenue and expenses	4,866,009	-	4,866,009
Change in net assets	15,209,877	15,970,656	31,180,533
Net assets, beginning of year	95,477,611	148,124,121	243,601,732
Net assets, end of year	$110,687,488	$164,094,777	$274,782,265

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statement of Activities
For the Year Ended July 31, 2020

	2020		
Changes in net assets:	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other additions:			
Tuition and fees	$ 14,959,734	$ -	$ 14,959,734
Scholarship and fellowships	(5,507,188)	-	(5,507,188)
Gifts:			
Cooperative Program	7,377,175	-	7,377,175
Student aid	-	3,162,343	3,162,343
Endowment	48,000	1,860,122	1,908,122
Other	3,746,978	1,009,806	4,756,784
Investment return	(2,094,860)	6,395,256	4,300,396
Change in value of split interest funds	-	(454,157)	(454,157)
Auxiliary enterprises	5,257,042	-	5,257,042
Other	1,665,499	-	1,665,499
Net assets released from restriction	5,930,187	(5,930,187)	-
Total revenue	31,382,567	6,043,183	37,425,750
Expenses and other deductions:			
Academic and student programs	15,988,696	-	15,988,696
Administrative support	11,096,297	-	11,096,297
Auxiliaries	6,896,986	-	6,896,986
Facilities operation and maintenance	5,768,817	-	5,768,817
Total operating expenses	39,750,796	-	39,750,796
Change in net assets from operating activities	(8,368,229)	6,043,183	(2,325,046)
Loss on sale of property	(467,913)	-	(467,913)
Change in net assets	(8,836,142)	6,043,183	(2,792,959)
Net assets, beginning of year	104,313,753	142,080,938	246,394,691
Net assets, end of year	$ 95,477,611	$148,124,121	$243,601,732

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Consolidated Statements of Cash Flows
For the Years Ended July 31, 2021 and 2020

Change in cash and cash equivalents:	2021	2020
Change in net assets	$ 31,180,533	$ (2,792,959)
Adjustments to reconcile change in net assets to net cash utilized by operating activities:		
Depreciation and amortization of debt issue cost	4,117,005	4,069,899
Gain on extinguishment of debt	(4,550,500)	-
Contributions restricted for endowment and acquisition of long-term assets	(2,765,518)	(2,200,374)
Gain on disposal of fixed assets	(315,509)	469,003
Non-cash contributions	(2,643,197)	(664,810)
Change in value of swap liability	(172,634)	117,662
Net unrealized and realized gain on investments	(24,917,126)	(1,232,660)
Investment income	(1,572,006)	(1,327,950)
Change in value of split-interest funds	941,120	1,166,717
Changes in operating assets and liabilities:		
Receivables	75,006	(190,736)
Unconditional promises to give	115,749	1,084,051
Other assets	(51,876)	(55,295)
Accounts payable	(556,330)	(34,090)
Other accrued expenses	(320,188)	255,427
Deferred income	(199,239)	81,731
Accrued postretirement benefit obligation	(68,984)	(299,116)
Accrued postemployment benefit obligation	1,427	(43,717)
Total adjustments	(32,882,800)	1,195,742
Net cash utilized by operating activities	(1,702,267)	(1,597,217)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	22,844,677	20,334,143
Proceeds from notes receivable	19,231	368,186
Purchase of investments	(20,574,804)	(9,469,266)
Proceeds from sale of property and equipment	422,466	3,300
Investment in construction in progress	(7,001,078)	(2,724,242)
Purchase of property, plant, and equipment	(1,106,982)	(1,669,374)
Net cash (utilized) provided by investing activities	(5,396,490)	6,842,747
Cash flows from financing activities:		
Proceeds from issuance of notes payable	-	8,150,500
Principal payments on notes payable	(1,040,870)	(4,800,187)
Contributions restricted for endowments and acquisition of long-term assets	2,765,518	2,200,374
Net cash provided by financing activities	1,724,648	5,550,687
Net (decrease) increase in cash and cash equivalents	(5,374,109)	10,796,217
Cash and cash equivalents, beginning of year	12,043,556	1,247,339
Cash and cash equivalents, end of year	$ 6,669,447	$ 12,043,556

The accompanying notes are an integral part of these financial statements.

1. NATURE OF ORGANIZATION

The Southwestern Baptist Theological Seminary, (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The primary purpose of the Seminary is to provide theological education for men and women preparing for Christian ministry. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the Southern Baptist Convention (SBC) and is an entity of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Seminary consolidates the accounts of Southwestern Seminary Foundation ("Foundation"), Texas non-profit corporation. Foundation is organized and operated for the benefit of and to further the purposes of the Seminary and to hold and manage a portion of the Seminary's endowment portfolio. Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In the event of dissolution of Foundation, all assets shall inure to the Seminary. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

These financial statements of the Seminary have been prepared and are presented in conformity with accounting principles generally accepted in the United States of America (GAAP). The Seminary is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Seminary. These net assets may be used at the discretion of the Seminary's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Seminary or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Basis of Accounting

The consolidated financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenue and Support

Revenues and support for the Seminary are primarily derived from tuition, fees, and contributions from donors and supporters of the Seminary. Contributions received are recorded as net assets with donor restrictions and net assets without donor restrictions depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions

The Seminary reports gifts of cash and other assets as net asset with donor restrictions if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time net assets with donor restrictions are reclassified to net assets without donor restrictions. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as net assets without donor restrictions revenue.

The Seminary reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue Recognition

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

Investment returns on endowment and similar funds are reported as follows:

- as changes in net assets with donor restrictions if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in net assets with donor restrictions if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in net assets without donor restrictions in all other cases.

Donated Assets

Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment, or expense account. In the absence of donor restrictions, donated assets are reported as revenue without donor restrictions.

Donated Services

Occasionally, the Seminary receives support in the form of donated services. Those services are recognized as revenue without donor restrictions if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 31, 2021 and 2020.

Classification of Revenue and Expenses

Operating activities include items which are directly related to the Organization's program activities or are essential support elements of those programs. Depreciation and interest expense have been allocated to related operating activities. Interest income and gains or losses on disposals of assets or liabilities do not meet the Organization's criteria for operating activities and are included with other revenue and expenses.

Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant estimates included in these financial statements are depreciation, the valuation of certain level 3 investments, the interest rate swap agreement, the accrued benefit obligations, and allocation of certain expenses.

Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Seminary currently invests primarily in common stock, mutual funds and partnerships. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

Programs

The Seminary's core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Academic and student	-	providing a biblically-based education for undergraduate, graduate, and postgraduate degrees in theology, church music and worship, educational ministries, and evangelism and missions; along with campus life activities, placement and employment services
Auxiliary enterprises	-	providing housing, dining, recreational, and other services to students and staff
Administrative support	-	providing support for program activities and general operations
Facilities operations	-	providing for maintenance and care of facilities, grounds, and equipment

Cash and Cash Equivalents

For the purposes of financial reporting, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

Accounts Receivable

The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of each term. Amounts are reported net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the term are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Typically, students whose accounts are not current are not allowed to enroll in future classes. Allowance for doubtful accounts for the years ended July 31, 2021 and 2020, was $1,310,309 and $779,005, respectively.

Investments

Investments in debt, equity securities, and mineral rights are stated at fair value. The net realized and unrealized gains and losses on investments are reflected in the Statement of Activities. Investments received by gift or bequest are recorded at fair value at the date of effective receipt. If fair value is not determinable at date of effective receipt, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

The Seminary is the beneficiary of certain perpetual trusts held and administered by third parties. Distributions from the trusts are recorded as endowment income and the carrying value of the investments is the current market value of underlying assets.

Fair Value Measurements

The Seminary follows FASB Accounting Standards Codification Topic 820, *Fair Value Measurement.* Topic 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

The Seminary adopted the provisions of Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its equivalent)*. ASU No. 2015-07 amends ASC Topic 820, *Fair Value Measurement*, to remove the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. The information provided in Note 14 in these financial statements has been updated to comply with the provisions of this ASU.

Split-Interest Agreements

The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized at the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the Statement of Activities as a change in value of split-interest agreements. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions used by trustees of the agreements.

Advertising Costs

The Seminary uses advertising to promote its major programs to the general public. The costs of advertising are expensed as incurred. Advertising expense was $488,341 and $406,271 for the years ended July 31, 2021 and 2020, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30-40 years
Equipment	5-10 years
Improvements other than buildings	30 years

Impairment of Long-lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Unconditional Promises to Give

The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectability and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences

Employees of the Seminary are entitled to paid vacation leave depending upon their length of service and other factors. Compensated absences for vacation leave have not been accrued since they cannot be reasonably estimated. The Seminary’s policy is to recognize these costs when actually paid.

Interest Rate Swap Agreement

The Seminary uses a derivative to manage risks related to interest rate movements. The Seminary’s interest-rate swap contracts are reported at fair value. The change in the swap contract's fair value is reported as a gain or loss in the Statement of Activities. The Seminary’s risk management strategy is to stabilize cash flow requirements by maintaining a swap contract which effectively converts variable-rate debt to a fixed rate.

3. LIQUIDITY AND AVAILABLE RESOURCES

The following represents the Seminary's financial assets at July 31, 2021 and 2020:

	2021	2020
Cash and cash equivalents	$ 6,669,447	$ 12,043,556
Accounts and contributions receivable	1,126,356	1,317,110
Notes receivable	9,142	28,374
Investments	76,274,235	63,642,546
Endowments held in perpetuity by others	74,919,293	62,549,412
Annuities and trusts held by others	17,200,797	15,379,687
Other assets	474,334	422,458
Total financial assets	176,673,604	155,383,143
Amounts not available to be used within one year, due to:		
Contribution and accounts receivable	-	(120,000)
Perpetual and term endowments and accumulated earnings not convertible to cash within the next 12 months	(72,814,000)	(60,442,000)
Endowments held in perpetuity by others not convertible to cash within the next 12 months	(72,039,000)	(59,749,000)
Investments held in trusts and various state required annuity reserves	(17,200,797)	(15,379,687)
Investments in board designated endowments	(623,750)	(470,872)
Total amounts not available to be used within one year	(162,677,547)	(136,161,559)
Financial assets available to meet general expenditures over the next twelve months	$ 13,996,057	$ 19,221,584

Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, perpetual endowments, or because the governing board has set aside the funds for specific contingency reserves and projects or a long-term investment as board designated endowments. The Seminary structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Seminary also has an unsecured $5,000,000 line of credit, which was not drawn upon at July 31, 2021. The line of credit matures in March 2022. The interest rate is LIBOR, with interest due monthly and principal due upon maturity.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Notes to Consolidated Financial Statements

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Seminary's only customers are its students. Contracts with students are of three types: 1) education-related tuition and fees, 2) dormitory rentals (with meal plan), and 3) dining fees (for students living on-campus in non-dorm facilities or off-campus). Performance obligations associated with education-related contracts consist of providing professional, accredited instruction in course subject matter for the associated academic term, assigning a grade consistent with the student's performance, and recording that grade in an official, permanent transcript. Dormitory rental (with meal plan) contracts obligate the Seminary to provide acceptable accommodations, utilities, maintenance, security, adequate parking, and nutritional meals of acceptable quality and quantity. Dining fee contracts obligate the Seminary to only providing nutritional meals of acceptable quality and quantity. Even though the Seminary provides each of these contracted services over the entire period of the academic term, no refunds or prorated adjustments are available to students after the second week of classes. Therefore, the Seminary fully recognizes revenue from these contracts in the first accounting period of each academic term.

5. FUNCTIONAL EXPENSES

Operating activities include items which are directly related to the Seminary's program services or are essential support elements of those programs. The costs of providing the Seminary's various programs and supporting services have been summarized in the table below, which reports certain categories of expenses that are attributable to more than one program or supporting activity. Accordingly, these expenses have been allocated among the programs and supporting services benefited using allocation bases determined by management and that are reasonable and consistently applied. Interest income and gains or losses on disposals of assets or liabilities do not meet the Seminary's criteria for operating activities and are included with other non-operating activities.

Total expenses include all operating expenses and net periodic pension cost.

	2021				
	Program Activities		Supporting Activities		
	Academic and student programs	Auxiliaries	Administrative Support	Facilities Operation and Maintenance	Total expenses
Salaries and wages	$ 8,464,393	$ 619,910	$ 4,539,265	$ 2,190,133	$ 15,813,701
Employee benefits	3,114,815	216,381	2,186,532	987,870	6,505,598
Depreciation and amortization	-	-	-	4,093,005	4,093,005
Services, supplies, and other	1,459,529	1,212,317	3,279,504	278,537	6,229,887
Occupancy, utilities, and maintenance	62,160	1,273,048	2,263,893	2,806,380	6,405,481
Interest	-	391,813	-	-	391,813
Transfer between functions	(33,778)	1,109,165	74,826	(1,153,355)	(3,142)
Depreciation and amortization, allocated by function	2,148,828	1,685,090	150,213	(3,984,131)	-
Total expenses	$ 15,215,947	$ 6,507,724	$ 12,494,233	$ 5,218,439	$ 39,436,343

	2020				
	Program Activities		Supporting Activities		
	Academic and student programs	Auxiliaries	Administrative Support	Facilities Operation and Maintenance	Total expenses
Salaries and wages	$ 8,911,564	$ 1,159,529	$ 4,674,477	$ 2,627,295	$ 17,372,865
Employee benefits	3,023,536	375,604	2,201,472	754,449	6,355,061
Depreciation and amortization	-	-	-	4,045,899	4,045,899
Services, supplies, and other	1,717,337	623,340	2,209,086	1,228,542	5,778,305
Occupancy, utilities, and maintenance	91,135	1,209,059	1,823,029	2,261,814	5,385,037
Interest	-	837,653	21,625	-	859,278
Transfer between functions	121,027	1,026,104	18,123	(1,210,903)	(45,649)
Depreciation and amortization, allocated by function	2,124,097	1,665,697	148,485	(3,938,279)	-
Total expenses	$ 15,988,696	$ 6,896,986	$ 11,096,297	$ 5,768,817	$ 39,750,796

6. UNCONDITIONAL PROMISES TO GIVE

Scheduled maturities of unconditional promises to give at July 31, are as follows:

	2021	2020
Less than one year	$ 120,000	$ 120,000
One to five years	-	120,000
Total unconditional promises to give	120,000	240,000
Unamortized discount at 0.90% and 1.20%, respectively	-	(4,251)
Net unconditional promises to give	$ 120,000	$ 235,749

7. FUNDRAISING ACTIVITIES

Fundraising expense for the years ended July 31, 2021 and 2020, was $1,525,535 and $1,373,574, respectively, These expenses are included in institutional support in the accompanying Statement of Activities.

8. COOPERATIVE PROGRAM

One significant source of Seminary revenue is the Cooperative Program of the SBC. Churches participating in the Cooperative Program contribute to the SBC, which passes funds (according to an allocation formula) to the Seminary and other entities. The Seminary received $7,045,972 and $7,377,175 from the SBC for the years ended July 31, 2021 and 2020, respectively.

Distributions by state, as provided by the SBC Executive Committee for years ended July 31, are as follows:

	2021	2020
Alabama	$ 699,551	$ 708,662
Alaska	4,425	4,595
Arizona	49,611	47,222
Arkansas	345,286	357,302
California	84,960	71,854
Colorado	27,663	24,832
Dakota	3,879	4,383
Florida	556,494	558,855
Georgia	567,867	615,323
Hawaii Pacific	8,570	9,834
Illinois	80,911	86,946
Indiana	26,460	29,833
Iowa	21,519	15,166
Kansas-Nebraska	31,033	30,127
Kentucky	360,679	370,345
Louisiana	234,036	248,356
Maryland-Delaware	55,951	61,682
Michigan	12,881	12,032
Minnesota-Wisconsin	10,303	8,452
Mississippi	413,066	455,353
Missouri	215,381	225,246
Montana	6,960	7,309
Nevada	15,103	18,768
New England	7,289	7,802
New Mexico	33,347	41,039
New York	8,281	8,896
North Carolina	430,776	440,409
Northwest	20,895	22,224
Ohio	78,429	86,989
Oklahoma	373,949	387,391
Pennsylvania-South Jersey	11,231	11,727
Puerto Rico/U.S. Virgin Islands	541	228
South Carolina	397,555	414,902
Tennessee	525,914	607,935
Texas-BGCT	363,846	380,902
Texas-SBTC	564,097	557,577
Utah-Idaho	9,004	8,485
Virginia-BGAV	32,590	32,243
Virginia-SBCV	170,273	177,686
West Virginia	17,698	18,418
Wyoming	2,787	4,138
	6,881,091	7,181,468
Churches and individuals	164,881	195,707
Total Cooperative Program Allocation	$ 7,045,972	$ 7,377,175

9. INVESTMENTS

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following as of July 31:

	2021	2020
Money market funds	$ 1,605,103	$ 542,922
Private equity	7,012,341	615,482
Other Foundations and 3rd party trusts	92,120,089	78,055,029
	100,737,533	79,213,433
Investments measured at net asset value	67,656,792	62,358,212
Investments, net of restricted cash	$ 168,394,325	$ 141,571,645

The "Investments measured at net asset value" and "Private equity" categories include interest in certain limited partnerships and limited liability corporations and is carried at fair value as provided by the investment managers. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material. Certain partnership agreements are restricted as to resale and may require advance notice for redemption or withdrawal.

The Seminary's investments in partnerships is subject to various risk factors arising from the investment activities of the underlying instruments of the partnerships, including market, credit, and currency risk. The Seminary's risk of loss as of July 31, 2021 and 2020, in any of its investment partnerships is limited to the value of the investment at July 31, 2021 and 2020. Investment fees are netted against dividend and interest income.

The following schedule details investment returns for the years ended July 31:

Dividend and interest income	$ 5,292,878	$ 3,372,187
Net realized gains on investments	3,548,316	3,079,203
Net unrealized gain (loss) on investments	21,167,177	(2,150,994)
Total	$ 30,008,371	$ 4,300,396

10. PROPERTY, PLANT, AND EQUIPMENT

Property and equipment consists of the following at July 31:

Land	$ 2,028,483	$ 2,028,483
Buildings	157,306,878	152,706,805
Equipment	16,334,374	16,474,777
Improvements other than buildings	15,609,300	11,746,059
Library books/microfilm/antiquities	14,566,967	14,385,662
	205,846,002	197,341,786
Less accumulated depreciation	(75,196,298)	(71,338,584)
Total	$ 130,649,704	$ 126,003,202

Buildings include construction in progress for existing facilities totaling $7,260,145 at July 31, 2021.

11. EMPLOYEE BENEFITS

Defined Contribution Retirement Plan

The Seminary provides all full - time employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary contributes 10% of the participant's salary to the plan and also matches the participant's contributions up to a maximum of 5% of their salary based upon prior years of service eligibility. The Seminary's contribution for the years ended July 31, 2021 and 2020, was $1,303,716 and $1,461,701, respectively.

Postretirement and Postemployment Benefits

The Seminary provides postretirement benefits to retired employees. The following table sets forth the future obligations at July 31:

	2021	2020
Accumulated benefit costs	$ 884,510	$ 953,494
Employer contributions (benefit paid)	(59,734)	(65,300)
Net periodic benefit cost	37,781	83,681
Comprehensive Income	(47,031)	(317,497)
Discount rate assumed	2.34%	1.97%

The Seminary provides postemployment benefits to retired employees. The following table sets forth the future obligations at July 31:

Accumulated benefit costs	$ 442,935	$ 441,508
Employer contributions (benefit paid)	(37,168)	(44,794)
Net periodic benefit cost	38,595	1,077
Discount rate assumed	2.58%	2.23%

12. NET ASSETS

Net assets without donor restrictions:

Current operations	$ (14,944,156)	$ (10,096,862)
Notes payable	(16,280,384)	(22,020,389)
Endowment	12,589,769	2,986,662
Invested in property, plant and equipment	130,649,704	126,003,202
Unfunded postretirement benefits	(884,510)	(953,494)
Unfunded postemployment benefits	(442,935)	(441,508)
Total net assets without donor restrictions	$ 110,687,488	$ 95,477,611

Net assets with donor restrictions, temporary in nature and met by passage of time consists of the following:	2021	2020
Capital projects	$ 5,218,499	$ 4,115,741
Scholarships	13,604,015	13,463,557
Other	2,409,024	2,607,431
Total net assets, temporary in nature	$ 21,231,538	$ 20,186,729

Net assets with donor restrictions, perpetual in nature and stipulated by the donor consists of the following:

Annuity and life income funds	$ 5,580,232	$ 4,660,466
Endowment funds	137,206,157	123,200,076
Other	76,850	76,850
Total net assets, perpetual in nature	142,863,239	127,937,392
Total net assets with donor restrictions	164,094,777	148,124,121
Total net assets	$ 274,782,265	$ 243,601,732

Net assets released during the years ended July 31 are for the following purposes:

Capital projects	$ -	$ 199,004
Scholarships	5,433,964	5,509,838
Reclass from restricted endowments	(1,264,913)	-
Other	404,742	221,345
Total net assets released	$ 4,573,793	$ 5,930,187

13. ENDOWMENT INVESTMENTS

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 net assets with donor restricted funds that the Seminary must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce returns that equal inflation plus annual distribution, while assuming moderate levels of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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 Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment funds average fair value based on a 16 quarter moving average of portfolio values. This is consistent with the Seminary's objective to maintain purchasing power of endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist entities throughout the United States. These entities do not report net assets with donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Organization as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

Underwater Funds - From time to time, the market value of assets associated with individual donor-restricted endowment funds may fall below the original gift value (become "underwater"). In accordance with GAAP and the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), deficiencies of this nature are classified in net assets with donor restrictions. As of July 31, 2021 and 2020, material deficiencies (5.0% or greater) of this nature exist in 261 and 437 donor-restricted endowment funds, respectively, which together have a original gift value of $24,829,126 and $41,721,105, respectively, and a market value of $20,293,713 and $32,245,795, respectively. These deficiencies resulted primarily from unfavorable market conditions that occurred shortly after the investment of new perpetually restricted contributions, along with continuing distributions for the program purposes designated by the donors.

Restrictions - Endowment investments are either net assets with donor restrictions or net assets without donor restrictions. Donor contributions and earnings that are permanently reinvested at donor direction, and earnings from funds held in trust by others are treated as net assets with donor restrictions. Other market value changes, whether realized or unrealized gains and losses or income (net of expenses) of donor-restricted endowments and all board-designated endowments are placed in the unrestricted category.

Endowments as of July 31, 2021, are composed of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 11,966,019	$ 137,206,157	$ 149,172,176
Board-designated	623,750	-	623,750
Total	$ 12,589,769	$ 137,206,157	$ 149,795,926

The change in endowments for the year ended July 31, 2021, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of the period	$ 2,986,662	$ 123,200,076	$ 126,186,738
Change in investment	9,555,107	12,324,917	21,880,024
Contributions	48,000	1,681,164	1,729,164
End of period	$ 12,589,769	$ 137,206,157	$ 149,795,926

Endowments as of July 31, 2020, are composed of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 2,515,790	$ 123,200,076	$ 125,715,866
Board-designated	470,872	-	470,872
Total	$ 2,986,662	$ 123,200,076	$ 126,186,738

The change in endowments for the year ended July 31, 2020, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of the period	$ 13,310,454	$ 121,373,822	$ 134,684,276
Change in investment	(10,371,792)	(33,868)	(10,405,660)
Contributions	48,000	1,860,122	1,908,122
End of period	$ 2,986,662	$ 123,200,076	$ 126,186,738

14. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Seminary uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Seminary has the ability to access.

Level 2 – Valuations based on inputs, other than quoted prices included in Level 1, which are observable either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair values for money market funds, equities, mutual funds, and closed-end funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

Fair values for investment in partnerships have been estimated using the net asset value (NAV) per share of the investments as provided by the fund managers. Individual fund managers rely on a variety of inputs that are available according to the type of investment strategy in use.

Multi-strategy and long/short hedge funds typically utilize the NAV provided by the underlying investee. The Valuation Committee established by each fund manager also takes into account information provided within audited and unaudited financial statements and performance reports of the underlying investee. In addition, third party valuation services, broker quotes, estimates, and other alternative valuation techniques may be utilized by the fund's Valuation Committee.

Structured credit fund portfolio investments are primarily in the form of debt investments that are not publicly traded. The fair value of these securities is not readily determinable. These investments are valued on at least a quarterly basis in accordance with a valuation policy which is, at all times, consistent with accounting principles generally accepted in the United States (US GAAP). The Board of Directors or Valuation Committee determines the fair value in good faith based on the input of their Investment Advisor and the respective third-party valuation firms.

Private equity funds fair values are supported by information received from the investee funds such as monthly net asset values, investor reports, and audited financial statements, when available. The fund Valuation Committee may consider other factors, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

Investments by category level at July 31, 2021, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$ 83,536,736	$ 82,890,881	$ -	$ 645,855
Annuities, net	5,580,232	5,580,232	-	-
Total investments subject to fair value hierarchy	89,116,968	$ 88,471,113	$ -	$ 645,855
Investments measured at net asset value	67,656,792			
Total	$156,773,760			

Investments by category level at July 31, 2020, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$ 63,833,746	$ 63,218,264	$ -	$ 615,482
Annuities, net	4,660,466	4,660,466	-	-
Total investments subject to fair value hierarchy	68,494,212	$ 67,878,730	$ -	$ 615,482
Investments measured at net asset value	62,358,212			
Total	$130,852,424			

The changes in investment in partnerships, which are measured at fair value on a recurring basis using significant unobservable inputs, are as follows:

Balance at July 31, 2019	$ 1,008,784
Redemptions	(301,718)
Subscriptions	10,792
Change in estimated fair value	(102,376)
Balance at July 31, 2020	615,482
Redemptions	(232,752)
Subscriptions	38,176
Change in estimated fair value	224,949
Balance at July 31, 2021	$ 645,855

15. NOTES PAYABLE

In fiscal year 2012, the Seminary entered into a financing arrangement ("Loan") with a bank, for the purpose of paying for construction of 252 new student housing units. The Loan is structured with $16,000,000 of tax-exempt bonds and a $7,000,000 taxable loan with the bank. The tax-exempt portion of the loan is amortized over 20 years, with the final payment due December 15, 2021. Interest calculation is based upon 65% of the 90-day LIBOR rate plus 156 basis points. The 90-day LIBOR rate is .25% at July 31, 2021 and 2020, respectively. From December 2011 to December 2013, quarterly payments were for interest only, with both principal reduction and interest payments beginning in January 2014. The taxable portion of the loan was due December 30, 2018, with interest calculated as 90-day LIBOR rate plus 200 basis points. This portion of the Loan was renewed and extended to mature on December 15, 2021, with the same interest provision. The Loan is secured with deeds of trust on land and buildings, with a net book value of $24,214,485 in Fort Worth, Texas.

Scheduled principal payments and total loans outstanding at July 31, 2021.

2022	$ 16,226,507
Liability on swap agreement	77,877
Debt issue cost	(24,000)
Total amount outstanding	$ 16,280,384

The Seminary entered into an interest rate swap as a hedge against exposure to variances in interest rates applied to the loans. The differential interest required to be paid or that will be received under these agreements is accrued consistent with the terms of the agreements and is recognized in the Statements of Activities and included in these Notes Payable. The interest rate for the bonds is established quarterly based upon 65% of the 90-Day LIBOR plus 1.56% (1.72% at July 31, 2021 and 2020, respectively). The notional principal amount of the swap agreements are $10,000,000 and $6,000,000. The agreements effectively fix the Seminary's interest rate exposure at 3.25% for a period of ten years ending December 2021.

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the Statements of Financial Position. Accordingly, $77,877 and $250,511, which is representative of the value of the swap agreements at July 31, 2021 and 2020, respectively, is included in Notes Payable on the Statement of Financial Position. Value has been measured based on an estimate of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying the valuation models.

In April 2020, the Seminary obtained a 1% interest bearing Paycheck Protection Program loan through the Small Business Administration (SBA) for $4,550,500. The Paycheck Protection Program is a loan that helps businesses keep their workforce employed during the Coronavirus crisis. The Seminary used the funds for qualifying expenses according to the SBA. In June 2021, SBA forgave the loan and the Seminary recorded a gain of extinguishment of debt of $4,550,500.

The Seminary paid interest for the years ending July 31, 2021 and 2020, of $559,446 and $716,991, respectively.

16. CHARITABLE GIFT ANNUITIES

The Seminary enters into split interest agreements with donors whereby, in exchange for the gift from the donor, the Seminary is obligated to provide an annuity to the donor or other designated beneficiaries during their lifetimes. At July 31, 2021, five annuities are active. The assets and liabilities associated with these annuities are accounted for as indicated in Note 2, Split-Interest Agreements.

17. LEASE COMMITMENTS

The Seminary has non-cancelable operating leases for equipment expiring in 2026. Lease expenses were $363,816 and $242,376 for the years ended July 31, 2021 and 2020, respectively. The Seminary's future minimum lease payments under the lease agreements are as follows for the five years ended July 31:

2022	$ 325,666
2023	248,052
2024	105,798
2025	66,165
2026	10,889
Total future minimum lease payments	$ 756,570

18. ACCOUNTING FOR UNCERTAIN TAX POSITIONS

The Seminary is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation, except on net income derived from unrelated business activities. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax in 2021 and 2020 as expenses exceeded revenues. The Seminary believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

19. ENERGY SAVINGS CONTRACT

In March 2021, the Seminary entered into an energy services contract with Ideal Impact (Company). The purpose of the contract is to upgrade equipment to optimize energy savings for electricity and gas usage. The Seminary shall pay the Company a total project fee of $1,987,591 only upon actual energy savings over the baseline year. The baseline year is the 12 months preceding March 2020. The Company will bill the Seminary 80% of actual energy savings over the baseline year, per quarter until the $1,987,591 is paid. The Seminary benefits from the 20% difference with lower utility bills. The Seminary is not liable to pay the Company if the actual current energy costs exceed the baseline year and no cost savings are recognized.

20. CONTINGENCY

The Seminary is a defendant in a pending litigation, asserting claims by a former student of the Seminary, related to an alleged sexual offense occurring on Seminary property. Presently, discovery responses are ongoing according to the timelines established by law and/or by agreement of the parties. At this stage, there is no reasonable prediction of the outcome of the case, or of any potential liability of the Seminary. The Seminary has tendered the lawsuit to its insurance carrier, who is providing the Seminary a defense subject to a reservation of rights.

21. SUBSEQUENT EVENTS

The Seminary has evaluated subsequent events through October 11, 2021, the date the financial statements were available to be issued.

The Southwestern Baptist Theological Seminary

Financial Statements

as of

July 31, 2022 and 2021

Together With

Independent Auditors' Report

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CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditors' Report

To the Board of Trustees
The Southwestern Baptist Theological Seminary
Fort Worth, Texas

Opinion

We have audited the accompanying financial statements of The Southwestern Baptist Theological Seminary (a Texas nonprofit corporation), which comprise the statements of financial position as of July 31, 2022 and 2021, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Southwestern Baptist Theological Seminary, as of July 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Financial Statements section of our report. We are required to be independent of The Southwestern Baptist Theological Seminary 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.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the accompanying financial statements for fiscal year 2021 have been restated to correct an error made in a prior year. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 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 The Southwestern Baptist Theological Seminary'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Southwestern Baptist Theological Seminary'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.

Irving, Texas
November 11, 2022

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Statements of Financial Position
July 31, 2022 and 2021

Assets:	2022	2021
Cash and cash equivalents	$ 1,720,618	$ 6,669,447
Accounts receivables, net	413,123	99,550
Unconditional promises to give, net	-	120,000
Other assets	637,898	474,334
Notes receivable	8,025	9,142
Investments:		
Endowment funds	142,295,273	149,795,926
Split-interest funds	15,376,459	17,200,797
Other investments	4,989	1,397,602
Total investments	157,676,721	168,394,325
Property, plant, and equipment, net	130,637,867	131,631,608
Total assets	$ 291,094,252	$ 307,398,406
Liabilities and net assets:		
Liabilities:		
Accounts payable	$ 1,738,699	$ 1,648,684
Accrued salaries and benefits	821,524	905,292
Deposits and agency funds	402,724	595,100
Deferred income	176,889	163,573
Notes payable	17,495,422	16,280,384
Lease obligations	849,874	981,903
Liability under annuity contracts	10,048,525	11,620,565
Accrued postretirement benefit obligation	646,647	884,510
Accrued postemployment benefit obligation	355,985	442,935
Total liabilities	32,536,289	33,522,946
Net Assets:		
Net assets - without donor restrictions	92,812,650	109,780,683
Net assets - with donor restrictions	165,745,313	164,094,777
Total net assets	258,557,963	273,875,460
Total liabilities and net assets	$ 291,094,252	$ 307,398,406

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Statement of Activities
For the Year Ended July 31, 2022

	2022		
Changes in net assets:	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other additions:			
Tuition and fees	$ 12,414,811	$ -	$ 12,414,811
Scholarship and fellowships	(5,741,710)	-	(5,741,710)
Gifts:			
Cooperative Program	6,995,362	-	6,995,362
Student aid	-	3,256,677	3,256,677
Other	2,634,176	1,402,632	4,036,808
Investment income available for operations	4,408,227	2,610,720	7,018,947
Auxiliary enterprises	6,074,224	-	6,074,224
Other	507,813	-	507,813
Net assets released from restriction	6,524,103	(6,524,103)	-
Total revenue	33,817,006	745,926	34,562,932
Expenses and other deductions:			
Academic and student programs	15,338,826	-	15,338,826
Administrative support	13,689,861	-	13,689,861
Auxiliaries	7,557,019	-	7,557,019
Facilities operation and maintenance	6,143,223	-	6,143,223
Total operating expenses	42,728,929	-	42,728,929
Change in net assets from operating activities	(8,911,923)	745,926	(8,165,997)
Non-operating activities:			
Gifts - permanently restricted endowments and annuities	-	4,515,484	4,515,484
Change in value of investments (net)	(8,109,090)	(5,257,834)	(13,366,924)
Change in value of split interest funds	-	1,646,960	1,646,960
Gain on sale of property	52,980	-	52,980
Total non-operating activities	(8,056,110)	904,610	(7,151,500)
Change in net assets	(16,968,033)	1,650,536	(15,317,497)
Net assets, beginning of year	109,780,683	164,094,777	273,875,460
Net assets, end of year	$ 92,812,650	$165,745,313	$258,557,963

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Statement of Activities
For the Year Ended July 31, 2021

	2021		
Changes in net assets:	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other additions:			
Tuition and fees	$ 12,450,260	$ -	$ 12,450,260
Scholarship and fellowships	(5,433,964)	-	(5,433,964)
Gifts:			
Cooperative Program	7,045,972	-	7,045,972
Student aid	-	3,181,609	3,181,609
Other	10,950,958	1,189,310	12,140,268
Auxiliary enterprises	5,169,797	-	5,169,797
Investment income available for operations	4,193,533	2,452,053	6,645,586
Other	394,241	-	394,241
Net assets released from restriction	4,573,793	(4,573,793)	-
Total revenue	39,344,590	2,249,179	41,593,769
Expenses and other deductions:			
Academic and student programs	15,215,947	-	15,215,947
Administrative support	12,494,233	-	12,494,233
Auxiliaries	6,507,724	-	6,507,724
Facilities operation and maintenance	5,218,439	-	5,218,439
Total operating expenses	39,436,343	-	39,436,343
Change in net assets from operating activities	(91,753)	2,249,179	2,157,426
Non-operating activities:			
Endowment	-	1,681,165	1,681,165
Change in value of investments (net)	10,435,621	12,927,164	23,362,785
Change in value of split interest funds	-	(886,852)	(886,852)
Gain on extinguishment of debt	4,550,500	-	4,550,500
Gain on sale of property	315,509	-	315,509
Net non-operating activities	15,301,630	13,721,477	29,023,107
Change in net assets	15,209,877	15,970,656	31,180,533
Net assets, beginning of year	95,477,611	148,124,121	243,601,732
Net assets, end of year, as previously reported	110,687,488	164,094,777	274,782,265
Prior period adjustment	(906,805)	-	(906,805)
Net assets, end of year as restated	$109,780,683	$164,094,777	$273,875,460

The accompanying notes are an integral part of these financial statements.

THE SOUTHWESTERN BAPTIST THEOLOGICAL SEMINARY

Statements of Cash Flows
For the Years Ended July 31, 2022 and 2021

Change in cash and cash equivalents:	2022	2021
Change in net assets	$ (15,317,497)	$ 31,180,533
Adjustments to reconcile change in net assets to net cash utilized by operating activities:		
Depreciation	4,330,822	4,117,005
Gain on extinguishment of debt	-	(4,550,500)
Amortization	324,498	-
Principal portion of lease liabilities	(312,436)	-
Contributions restricted for endowment and acquisition of long-term assets	(5,281,159)	(2,765,518)
Gain (loss) on disposal of fixed assets	10,066	(315,509)
Non-cash contributions	(142,955)	(2,643,197)
Change in value of swap liability	(77,877)	(172,634)
Net unrealized and realized gain on investments	14,378,194	(24,917,126)
Investment income	(4,188,957)	(1,572,006)
Change in value of split-interest funds	(1,572,040)	941,120
Changes in operating assets and liabilities:		
Receivables	(313,573)	75,006
Unconditional promises to give	120,000	115,749
Other assets	(163,564)	(51,876)
Accounts payable	90,017	(556,330)
Other accrued expenses	(276,144)	(320,188)
Deferred income	13,316	(199,239)
Accrued postretirement benefit obligation	(237,863)	(68,984)
Accrued postemployment benefit obligation	(86,950)	1,427
Total adjustments	6,613,395	(32,882,800)
Net cash utilized by operating activities	(8,704,102)	(1,702,267)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	11,878,485	22,844,677
Proceeds from notes receivable	1,117	19,231
Purchase of investments	(11,411,985)	(20,574,804)
Proceeds from sale of property and equipment	307,272	422,466
Investment in construction in progress	(2,811,199)	(7,001,078)
Purchase of property, plant, and equipment	(604,518)	(1,106,982)
Net cash (utilized) provided by investing activities	(2,640,828)	(5,396,490)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	1,611,271	-
Principal payments on notes payable	(496,329)	(1,040,870)
Contributions restricted for endowments and acquisition of long-term assets	5,281,159	2,765,518
Net cash provided by financing activities	6,396,101	1,724,648
Net decrease in cash and cash equivalents	(4,948,829)	(5,374,109)
Cash and cash equivalents, beginning of year	6,669,447	12,043,556
Cash and cash equivalents, end of year	$ 1,720,618	$ 6,669,447

The accompanying notes are an integral part of these financial statements.

1. NATURE OF ORGANIZATION

The Southwestern Baptist Theological Seminary, (the "Seminary") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The primary purpose of the Seminary is to provide theological education for men and women preparing for Christian ministry. The Seminary's primary location is in Fort Worth, Texas.

The Seminary is supported by the Southern Baptist Convention (SBC) and is an entity of that Convention. The Seminary is economically dependent on the SBC and others for financial support.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements of the Seminary have been prepared and are presented in conformity with accounting principles generally accepted in the United States of America (GAAP). The Seminary is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Seminary. These net assets may be used at the discretion of the Seminary's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Seminary or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Basis of Accounting

The financial statements of the Seminary have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenue and Support

Revenues and support for the Seminary are primarily derived from tuition, fees, and contributions from donors and supporters of the Seminary. Contributions received are recorded as net assets with donor restrictions and net assets without donor restrictions depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions

The Seminary reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. A donor restriction expires when a stipulated time restriction ends or a purpose restriction is accomplished. At that time net assets with donor restrictions are reclassified to net assets without donor restrictions. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as net assets without donor restrictions revenue.

The Seminary reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that resources be maintained permanently but permits the Seminary to use part or all of the income derived from the donated asset for general or restricted purposes.

Revenue Recognition

Contributions are recognized as revenues in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund raising activity.

Investment returns on endowment and similar funds are reported as follows:

- as changes in net assets with donor restrictions if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as changes in net assets with donor restrictions if the terms of the gift impose a time or purpose restriction on the use of the income;
- as changes in net assets without donor restrictions in all other cases.

Donated Assets

Donated property is recorded at fair market value on the date of receipt in the appropriate investment, equipment, or expense account. In the absence of donor restrictions, donated assets are reported as revenue without donor restrictions.

Donated Services

Occasionally, the Seminary receives support in the form of donated services. Those services are recognized as revenue without donor restrictions if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution. Contributed services that do not meet these criteria are not recognized as revenue. No such amounts were recorded in the financial statements for the years ended July 31, 2022 and 2021.

Classification of Revenue and Expenses

Operating activities include items which are directly related to the Organization's program activities or are essential support elements of those programs. Depreciation and interest expense have been allocated to related operating activities. Interest income and gains or losses on disposals of assets or liabilities do not meet the Organization's criteria for operating activities and are included with other revenue and expenses.

Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant estimates included in these financial statements are depreciation, the valuation of certain level 3 investments, the interest rate swap agreement, the accrued benefit obligations, and allocation of certain expenses.

Concentrations

Financial instruments, which potentially subject the Seminary to concentrations of credit risk, are cash and cash equivalents and investments. The Seminary places its cash with high-credit quality financial institutions and periodically maintains deposits in amounts which exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote. The Seminary currently invests primarily in common stock, mutual funds and partnerships. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

Programs

The Seminary’s core values are exemplified in its efforts to be Christ-centered, grounded in Scripture, globally minded, supportive of the local church, encouraging of Godly character, pursuit of lifelong relationships, and dedicated to professional excellence and lifelong learning. The Seminary pursues its mission through the execution of these major programs:

Academic and student - providing a biblically-based education for undergraduate, graduate, and postgraduate degrees in theology, church music and worship, educational ministries, and evangelism and missions; along with campus life activities, placement and employment services

Auxiliary enterprises - providing housing, dining, recreational, and other services to students and staff

Administrative support - providing support for program activities and general operations

Facilities operations - providing for maintenance and care of facilities, grounds, and equipment

Cash and Cash Equivalents

For the purposes of financial reporting, the Seminary considers all short-term investments, with an original maturity of three months or less, to be cash equivalents.

Accounts Receivable

The Seminary's accounts receivable are due primarily from students. Credit is extended to students and collateral is not required. Accounts receivable are due at the beginning of each term. Amounts are reported net of an allowance for doubtful accounts. Accounts outstanding beyond the beginning of the term are considered past due. The Seminary determines its allowance by considering a number of factors, including the length of time student receivables are past due and the Seminary's previous loss history. The Seminary writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Typically, students whose accounts are not current are not allowed to enroll in future classes. Allowance for doubtful accounts for the years ended July 31, 2022 and 2021, was $999,483 and $1,310,309, respectively.

Investments

Investments in debt, equity securities, and mineral rights are stated at fair value. The net realized and unrealized gains and losses on investments are reflected in the Statement of Activities. Investments received by gift or bequest are recorded at fair value at the date of effective receipt. If fair value is not determinable at date of effective receipt, assets received by gift or bequest are recorded at a nominal value until such time as the fair value is determinable. Purchased investments or debt securities which are not marketable with readily determinable fair values are carried at cost unless there has been an impairment of value considered to be other than temporary.

The Seminary is the beneficiary of certain perpetual trusts held and administered by third parties. Distributions from the trusts are recorded as endowment income and the carrying value of the investments is the current market value of underlying assets.

Fair Value Measurements

The Seminary follows FASB Accounting Standards Codification Topic 820, *Fair Value Measurement.* Topic 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

The Seminary adopted the provisions of Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its equivalent)*. ASU No. 2015-07 amends ASC Topic 820, *Fair Value Measurement*, to remove the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. The information provided in Note 14 in these financial statements has been updated to comply with the provisions of this ASU.

Split-Interest Agreements

The Seminary is the beneficiary of split-interest agreements which are irrevocable charitable remainder trusts and charitable gift annuities. At the dates these trusts are established, assets and contribution revenues are recognized at the present value of the estimated future benefits to be received when the trust assets are distributed. The receivables are adjusted during the term of the trusts for changes in the value of assets, accretions of the discount and other changes in the estimates of future benefits which are reflected in the Statement of Activities as a change in value of split-interest agreements. Liabilities under split-interest agreements are calculated based upon current actuarial assumptions used by trustees of the agreements.

Advertising Costs

The Seminary uses advertising to promote its major programs to the general public. The costs of advertising are expensed as incurred. Advertising expense was $551,162 and $488,341 for the years ended 2022 and 2021, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at acquisition cost. Donated assets are recorded at fair market value at the time of receipt. The Seminary capitalizes assets with a cost greater than $3,500. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	30-40 years
Equipment	5-10 years
Improvements other than buildings	30 years

Impairment of Long-lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Unconditional Promises to Give

The Seminary records unconditional promises to give when a promise to give is communicated in writing with specific amounts and due dates for those donors with an established history of giving. Unconditional promises are evaluated annually as to collectability and reserves for doubtful promises are provided for estimated uncollectible accounts. Unconditional promises are written off when determined to be uncollectible.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Compensated Absences

Employees of the Seminary are entitled to paid vacation leave depending upon their length of service and other factors. Compensated absences for vacation leave have not been accrued since they cannot be reasonably estimated. The Seminary's policy is to recognize these costs when actually paid.

Interest Rate Swap Agreement

The Seminary uses a derivative to manage risks related to interest rate movements. The Seminary's interest-rate swap contracts are reported at fair value. The change in the swap contract's fair value is reported as a gain or loss in the Statement of Activities. The Seminary's risk management strategy is to stabilize cash flow requirements by maintaining a swap contract which effectively converts variable-rate debt to a fixed rate.

New Accounting Pronouncements

In 2022, the Seminary adopted the provisions of Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). The new standard clarifies the definition of a lease and causes lessee to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than one year. This change does not have a material impact on the Seminary's financial statements and have been applied to the financial statements and footnotes on a modified retrospective basis.

In 2022, the Seminary adopted, and retrospectively applied, the provisions of Accounting Standards Update (ASU) No. 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-Financial Assets. ASU No. 2020-07 amends ASC Topic 958, Not-for-Profit Entities, and improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. This change does not have a material impact on the Seminary's financial statements.

Change in Presentation

Certain amounts from the prior year financial statements have been reclassified to conform to the current year's financial statement presentation and enhance comparability between periods. This change has no effect on total net assets or the total change in net assets for the year ended July 31, 2021.

3. LIQUIDITY AND AVAILABLE RESOURCES

The following represents the Seminary's financial assets at July 31, 2022 and 2021:

	2022	2021
Cash and cash equivalents	$ 1,720,618	$ 6,669,447
Accounts and contributions receivable	413,123	219,550
Notes receivable	8,025	9,142
Investments	70,484,422	76,274,236
Endowments held in perpetuity by others	71,815,840	74,919,293
Annuities and trusts held by others	15,376,458	17,200,797
Other assets	637,898	474,334
Total financial assets	160,456,384	175,766,799

Amounts not available to be used within one year, due to:

	2022	2021
Perpetual and term endowments and accumulated earnings not convertible to cash within the next twelve months	(67,024,000)	(72,814,000)
Endowments held in perpetuity by others not convertible to cash within the next twelve months	(68,936,000)	(72,039,000)
Investments held in trusts and various state required annuity reserves	(15,376,458)	(17,200,797)
Investments in board designated endowments	(593,010)	(623,750)
Total amounts not available to be used within one year	(151,929,468)	(162,677,547)
Financial assets available to meet general expenditures over the next twelve months	$ 8,526,916	$ 13,089,252

Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, perpetual endowments, or because the governing board has set aside the funds for specific contingency reserves and projects or a long-term investment as board designated endowments. The Seminary structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Seminary has an unsecured line of credit (LOC) agreement in the amount of $5,000,000. The LOC has been drawn upon during the current year in the amount of $1,600,000, all of which is outstanding at July 31, 2022. The line of credit matures in March 2023. The interest rate is variable, indexed to the prime rate as quoted in the most recently published issue of the Wall Street Journal ("WSJ") (US Edition). The rate at July 31, 2022 is 5.5%. The interest rate will be no less that 3.5% and no greater than the maximum rate allowed by applicable law. For purposes of this Note, the "maximum rate allowed by applicable law" means the greater of (A) the maximum rate of interest permitted under federal or other law applicable to the indebtedness evidenced by this Note, or (B) the "Weekly Ceiling" as referred to in Sections 303.002 and 303.003 of the Texas Finance Code. Interest is due monthly and principal is due upon maturity.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Seminary's only customers are its students. Contracts with students are of three types: 1) education-related tuition and fees, 2) dormitory rentals (with meal plan), and 3) dining fees (for students living on-campus in non-dorm facilities or off-campus). Performance obligations associated with education-related contracts consist of providing professional, accredited instruction in course subject matter for the associated academic term, assigning a grade consistent with the student's performance, and recording that grade in an official, permanent transcript. Dormitory rental (with meal plan) contracts obligate the Seminary to provide acceptable accommodations, utilities, maintenance, security, adequate parking, and nutritional meals of acceptable quality and quantity. Dining fee contracts obligate the Seminary to only providing nutritional meals of acceptable quality and quantity. Even though the Seminary provides each of these contracted services over the entire period of the academic term, no refunds or prorated adjustments are available to students after the second week of classes. Therefore, the Seminary fully recognizes revenue from these contracts in the first accounting period of each academic term.

5. FUNCTIONAL EXPENSES

Operating activities include items which are directly related to the Seminary's program services or are essential support elements of those programs. The costs of providing the Seminary's various programs and supporting services have been summarized in the table below, which reports certain categories of expenses that are attributable to more than one program or supporting activity. Accordingly, these expenses have been allocated among the programs and supporting services benefited using allocation bases determined by management and that are reasonable and consistently applied. Interest income and gains or losses on disposals of assets or liabilities do not meet the Seminary's criteria for operating activities and are included with other non-operating activities.

Total expenses include all operating expenses and net periodic pension cost.

	2022				
	Program Activities		Supporting Activities		
	Academic and student programs	Auxiliaries	Administrative Support	Facilities Operation and Maintenance	Total expenses
Salaries and wages	$ 8,389,059	$ 729,524	$ 5,026,814	$ 2,071,629	$ 16,217,026
Employee benefits	2,550,160	218,864	2,135,543	1,076,182	5,980,749
Depreciation and amortization	-	-	-	4,296,606	4,296,606
Services, supplies, and other	1,867,046	994,898	4,155,436	157,890	7,175,270
Leasing cost	129,449	56,634	132,511	60,918	379,512
Occupancy, utilities, and maintenance	145,387	2,239,909	2,068,644	3,683,698	8,137,638
Interest	2,007	534,346	5,775	-	542,128
Transfer between functions	-	1,013,931	7,453	(1,021,384)	-
Depreciation and amortization, allocated by function	2,255,718	1,768,913	157,685	(4,182,316)	-
Total expenses	$ 15,338,826	$ 7,557,019	$ 13,689,861	$ 6,143,223	$ 42,728,929

	2021				
	Program Activities		Supporting Activities		
	Academic and student programs	Auxiliaries	Administrative Support	Facilities Operation and Maintenance	Total expenses
Salaries and wages	$ 8,464,393	$ 619,910	$ 4,539,265	$ 2,190,133	$ 15,813,701
Employee benefits	3,114,815	216,381	2,186,532	987,870	6,505,598
Depreciation and amortization	-	-	-	4,093,005	4,093,005
Services, supplies, and other	1,459,529	1,212,317	3,279,504	278,537	6,229,887
Occupancy, utilities, and maintenance	62,160	1,273,048	2,263,893	2,806,380	6,405,481
Interest	-	391,813	-	-	391,813
Transfer between functions	(33,778)	1,109,165	74,826	(1,153,355)	(3,142)
Depreciation and amortization, allocated by function	2,148,828	1,685,090	150,213	(3,984,131)	-
Total expenses	$ 15,215,947	$ 6,507,724	$ 12,494,233	$ 5,218,439	$ 39,436,343

6. FUNDRAISING ACTIVITIES

Fundraising expense for the years ended July 31, 2022 and 2021, was $2,335,291 and $1,525,535, respectively, These expenses are included in institutional support in the accompanying Statement of Activities.

7. COOPERATIVE PROGRAM

One significant source of Seminary revenue is the Cooperative Program of the SBC. Churches participating in the Cooperative Program contribute to the SBC, which passes funds (according to an allocation formula) to the Seminary and other entities. The Seminary received $6,995,361 and $7,045,972 from the SBC for the years ended July 31, 2022 and 2021, respectively.

Distributions by state, as provided by the SBC Executive Committee for years ended July 31, are as follows:

	2022	2021
Alabama	$ 682,336	$ 699,551
Alaska	4,463	4,425
Arizona	50,034	49,611
Arkansas	335,257	345,286
California	73,416	84,960
Colorado	19,215	27,663
Dakota	3,772	3,879
Florida	518,300	556,494
Georgia	534,368	567,867
Hawaii Pacific	7,648	8,570
Illinois	76,142	80,911
Indiana	26,455	26,460
Iowa	25,854	21,519
Kansas-Nebraska	27,949	31,033
Kentucky	353,541	360,679
Louisiana	233,864	234,036
Maryland-Delaware	57,300	55,951
Michigan	14,105	12,881
Minnesota-Wisconsin	9,149	10,303
Mississippi	467,836	413,066
Missouri	202,657	215,381
Montana	6,519	6,960
Nevada	15,081	15,103
New England	6,675	7,289
New Mexico	33,869	33,347
New York	8,016	8,281
North Carolina	434,584	430,776
Northwest	18,810	20,895
Ohio	78,396	78,429
Oklahoma	367,979	373,949
Pennsylvania-South Jersey	11,423	11,231
Puerto Rico/U.S. Virgin Islands	638	541
South Carolina	382,390	397,555
Tennessee	639,550	525,914
Texas-BGCT	344,849	363,846
Texas-SBTC	537,592	564,097
Utah-Idaho	8,137	9,004
Virginia-BGAV	30,242	32,590
Virginia-SBCV	167,740	170,273
West Virginia	16,759	17,698
Wyoming	1,313	2,787
	6,834,223	6,881,091
Churches and individuals	161,138	164,881
Total Cooperative Program Allocation	$ 6,995,361	$ 7,045,972

8. INVESTMENTS

The Seminary carries marketable securities at fair market value and realized and unrealized gains and losses are recorded in the Statement of Activities. Investments consist of the following as of July 31:

	2022	2021
Money market funds	$ 181,155	$ 1,605,103
Private equity	3,442,579	7,012,341
Private debt	2,815,475	-
Other Foundations and 3rd party trusts	87,251,461	92,120,089
	93,690,670	100,737,533
Investments measured at net asset value	63,986,051	67,656,792
Investments, net of restricted cash	$ 157,676,721	$ 168,394,325

The "Investments measured at net asset value" and "Private equity" categories include interest in certain limited partnerships and limited liability corporations and is carried at fair value as provided by the investment managers. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material. Certain partnership agreements are restricted as to resale and may require advance notice for redemption or withdrawal.

The Seminary's investments in partnerships is subject to various risk factors arising from the investment activities of the underlying instruments of the partnerships, including market, credit, and currency risk. The Seminary's risk of loss as of July 31, 2022 and 2021, in any of its investment partnerships is limited to the value of the investment at July 31, 2022 and 2021. Investment fees are netted against dividend and interest income.

The following schedule details investment returns for the years ended July 31:

	2022	2021
Dividend and interest income	$ 7,845,311	$ 5,292,878
Net realized gains on investments	2,082,181	3,548,316
Net unrealized gain (loss) on investments	(16,275,468)	21,167,177
Total	$ (6,347,976)	$ 30,008,371

9. PROPERTY, PLANT, AND EQUIPMENT

Property and equipment consists of the following at July 31:

	2022	2021
Land	$ 2,028,483	$ 2,028,483
Buildings	160,419,900	157,406,219
Equipment	16,275,265	16,334,374
Improvements other than buildings	15,635,000	15,509,960
Library books/microfilm/antiquities	14,651,898	14,566,967
Right of Use Assets - Operating, net of amortization	830,749	981,904
	209,841,295	206,827,907
Less accumulated depreciation	(79,203,428)	(75,196,298)
Total	$ 130,637,867	$ 131,631,609

Buildings include construction in progress for existing facilities totaling $2,558,138 at July 31, 2022.

10. LEASES

The Organization is the lessee of office printer equipment, vehicles, postage equipment and ice machine under operating leases expiring in various years through 2026. The net book value of the right of use assets is $830,749. The assets and liabilities under operating leases are recorded at the present value of the minimum lease payments. The assets are amortized over the lease term. Amortization of operating lease right of use assets is included in lease expense. Accumulated amortization for these assets was $331,561 at July 31, 2022.

Minimum future lease payments under operating leases as of July 31, 2022, are as follows:

2023	$ 371,185
2024	338,503
2025	176,669
2026	21,092
Total minimum lease payments	907,449
Less amount representing interest	(57,575)
Present value of net minimum operating lease payments	$ 849,874

Below is a summary of lease costs for the year ended July 31, 2022:

Interest on operating lease liability	$ 47,950
Amortization of operating lease right-of-use assets	331,561
Total lease cost	$ 379,511

Other information:

Right-of-use assets obtained in exchange for new operating lease	180,407
Weighted-average remaining lease term-operating leases	18.1 months
Weighted-average discount rate-operating leases	5.0%

11. EMPLOYEE BENEFITS

Defined Contribution Retirement Plan

The Seminary provides all full - time employees with a defined contribution retirement plan which is administered by GuideStone Financial Resources of the Southern Baptist Convention under Internal Revenue Code Section 403(b) and Treasury regulations related thereto. The Seminary contributes 10% of the participant's salary to the plan and also matches the participant's contributions up to a maximum of 5% of their salary based upon prior years of service eligibility. The Seminary's contribution for the years ended July 31, 2022 and 2021, was $1,526,545 and $1,303,716, respectively.

Postretirement and Postemployment Benefits

The Seminary provides postretirement benefits to retired employees. The following table sets forth the future obligations at July 31:

	2022	2021
Accumulated benefit costs	$ 646,647	$ 884,510
Employer contributions (benefit paid)	(43,379)	(59,734)
Net periodic benefit cost	34,127	37,781
Comprehensive Income	(228,611)	(47,031)
Discount rate assumed	4.12%	2.34%

The Seminary provides postemployment benefits to retired employees. The following table sets forth the future obligations at July 31:

Accumulated benefit costs	$ 355,985	$ 442,935
Employer contributions (benefit paid)	(65,182)	(37,168)
Net periodic benefit cost	(21,768)	38,595
Discount rate assumed	4.14%	2.58%

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12. NET ASSETS

	2022	2021
Net assets without donor restrictions:		
Current operations	$ (23,276,383)	$ (15,850,961)
Notes payable	(17,495,422)	(16,280,384)
Endowment	3,949,220	12,589,769
Invested in property, plant and equipment	130,637,867	130,649,704
Unfunded postretirement benefits	(355,985)	(884,510)
Unfunded postemployment benefits	(646,647)	(442,935)
Total net assets without donor restrictions	$ 92,812,650	$ 109,780,683
Net assets with donor restrictions, temporary in nature and met by passage of time consists of the following:		
Capital projects	$ 5,750,258	$ 5,218,499
Scholarships	13,801,108	13,604,015
Other	2,416,574	2,409,024
Total net assets, temporary in nature	$ 21,967,940	$ 21,231,538
Net assets with donor restrictions, perpetual in nature and stipulated by the donor consists of the following:		
Annuity and life income funds	$ 5,327,934	$ 5,580,232
Endowment funds	138,346,054	137,206,157
Other	103,385	76,850
Total net assets, perpetual in nature	143,777,373	142,863,239
Total net assets with donor restrictions	165,745,313	164,094,777
Total net assets	$ 258,557,963	$ 273,875,460

Net assets released during the years ended July 31 are for the following purposes:

	2022	2021
Scholarships	$ 5,518,710	$ 5,433,964
Capital projects	510,625	-
Reclass from restricted endowments	-	(1,264,913)
Other	494,768	404,742
Total net assets released	$ 6,524,103	$ 4,573,793

13. ENDOWMENT INVESTMENTS

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 net assets with donor restricted funds that the Seminary must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce returns that equal inflation plus annual distribution, while assuming moderate levels of investment risk. The Seminary expects its endowment funds, over time, to provide an average rate of return of approximately 8% 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 Relate to the Spending Policy - The Seminary has a policy of appropriating for distribution each year a percentage (generally between 4% and 6%) of its endowment funds average fair value based on a 16 quarter moving average of portfolio values. This is consistent with the Seminary's objective to maintain purchasing power of endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the right to recommend against expenditure of earnings or gains in any given year due to factors such as financial market conditions or poor investment performance.

Funds Held in Trust by Others - A substantial portion of the Seminary's endowment assets is held by Baptist entities throughout the United States. These entities do not report net assets with donor restrictions on the amount to retain as a fund of perpetual duration. Consequently, the Seminary records changes in the market value of investments held in trust for the benefit of the Organization as though the donor specifies the undistributed funds be considered included in the fund for perpetual duration.

Underwater Funds - From time to time, the market value of assets associated with individual donor-restricted endowment funds may fall below the original gift value (become "underwater"). In accordance with GAAP and the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), deficiencies of this nature are classified in net assets with donor restrictions. As of July 31, 2022 and 2021, material deficiencies (5.0% or greater) of this nature exist in 435 and 261 donor-restricted endowment funds, respectively, which together have a original gift value of $46,597,220 and $24,829,126, respectively, and a market value of $37,450,783 and $20,293,713, respectively. These deficiencies resulted primarily from unfavorable market conditions that occurred shortly after the investment of new perpetually restricted contributions, along with continuing distributions for the program purposes designated by the donors.

Restrictions - Endowment investments are either net assets with donor restrictions or net assets without donor restrictions. Donor contributions and earnings that are permanently reinvested at donor direction, and earnings from funds held in trust by others are treated as net assets with donor restrictions. Other market value changes, whether realized or unrealized gains and losses or income (net of expenses) of donor-restricted endowments and all board-designated endowments are placed in the unrestricted category.

Endowments as of July 31, 2022, are composed of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 3,356,209	$ 138,346,054	$ 141,702,263
Board-designated	593,010	-	593,010
Total	$ 3,949,219	$ 138,346,054	$ 142,295,273

The change in endowments for the year ended July 31, 2022, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of the period	$ 12,589,769	$ 137,206,157	$ 149,795,926
Change in investment	(8,688,550)	(3,129,232)	(11,817,782)
Contributions	48,000	4,269,129	4,317,129
End of period	$ 3,949,219	$ 138,346,054	$ 142,295,273

Endowments as of July 31, 2021, are composed of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds and market value changes of donor-restricted endowment funds	$ 11,966,019	$ 137,206,157	$ 149,172,176
Board-designated	623,750	-	623,750
Total	$ 12,589,769	$ 137,206,157	$ 149,795,926

The change in endowments for the year ended July 31, 2021, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of the period	$ 2,986,662	$ 123,200,076	$ 126,186,738
Change in investment	9,555,107	12,324,917	21,880,024
Contributions	48,000	1,681,164	1,729,164
End of period	$ 12,589,769	$ 137,206,157	$ 149,795,926

14. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Seminary uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Seminary has the ability to access.

Level 2 – Valuations based on inputs, other than quoted prices included in Level 1, which are observable either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair values for money market funds, equities, mutual funds, and closed-end funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

Fair values for investment in partnerships have been estimated using the net asset value (NAV) per share of the investments as provided by the fund managers. Individual fund managers rely on a variety of inputs that are available according to the type of investment strategy in use.

Multi-strategy and long/short hedge funds typically utilize the NAV provided by the underlying investee. The Valuation Committee established by each fund manager also takes into account information provided within audited and unaudited financial statements and performance reports of the underlying investee. In addition, third party valuation services, broker quotes, estimates, and other alternative valuation techniques may be utilized by the fund's Valuation Committee.

Structured credit fund portfolio investments are primarily in the form of debt investments that are not publicly traded. The fair value of these securities is not readily determinable. These investments are valued on at least a quarterly basis in accordance with a valuation policy which is, at all times, consistent with accounting principles generally accepted in the United States (US GAAP). The Board of Directors or Valuation Committee determines the fair value in good faith based on the input of their Investment Advisor and the respective third-party valuation firms.

Private equity funds fair values are supported by information received from the investee funds such as monthly net asset values, investor reports, and audited financial statements, when available. The fund Valuation Committee may consider other factors, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

Investments by category level at July 31, 2022, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$ 78,314,211	$ 78,023,535	$ -	$ 290,676
Annuities, net	5,327,934	5,327,934	-	-
Total investments subject to fair value hierarchy	83,642,145	$ 83,351,469	$ -	$ 290,676
Investments measured at net asset value	63,986,051			
Total	$147,628,196			

Investments by category level at July 31, 2021, are as follows:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Endowment Funds	$ 83,536,736	$ 82,890,881	$ -	$ 645,855
Annuities, net	5,580,232	5,580,232	-	-
Total investments subject to fair value hierarchy	89,116,968	$ 88,471,113	$ -	$ 645,855
Investments measured at net asset value	67,656,792			
Total	$156,773,760			

The changes in investment in partnerships, which are measured at fair value on a recurring basis using significant unobservable inputs, are as follows:

Balance at July 31, 2020	$ 615,482
Redemptions	(232,752)
Subscriptions	38,176
Change in estimated fair value	224,949
Balance at July 31, 2021	645,855
Redemptions	(208,537)
Subscriptions	13,334
Change in estimated fair value	(159,976)
Balance at July 31, 2022	$ 290,676

15. NOTES PAYABLE

	2022		2021	
	Principal	Unamortized Debt Issuance Cost	Principal	Unamortized Debt Issuance Cost
4.34% note payable to a financial institution, secured with deeds of trust on land and buildings, with an estimated net book value of $115,155,220, payable in quarterly installments through February 2032	$ 15,855,346	$ (91,945)	$ -	$ -
Variable rate (5.50% at July 2022) unsecured line of credit to a financial institution, due on March 2023	1,600,000	-	-	-
7.29% note payable to financial institution, secured by vehicle with a carrying value of $81,700, payable in monthly installments through April 2027	78,992	-	-	-
6.54% note payable to financial institution, secured by vehicle with a carrying value of $56,000, payable in monthly installments through March 2027	53,029	-	-	-
Variable rate (1.72% at July 2021) note payable to a financial institution, refinanced in 2022	-	-	16,226,507	(24,000)
	17,587,367	(91,945)	16,226,507	(24,000)
Liability on swap agreement	-	-	77,877	-
Notes payable, net of current portion	$ 17,587,367	$ (91,945)	$ 16,304,384	$ (24,000)

Scheduled principal payments and total loans outstanding at July 31, 2022, for the following five fiscal years ended July 31, and thereafter are as follows:

2023	$ 2,408,596
2024	843,338
2025	883,565
2026	923,903
2027	948,440
Thereafter	11,579,525
Total scheduled payments	17,587,367
Debt issue cost	(91,945)
Total amount outstanding	$ 17,495,422

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the Statements of Financial Position. Accordingly, $77,877, which was representative of the value of the swap agreement was included in Notes Payable on the Statement of Financial Position at July 31, 2021. Value was measured based on an estimate of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying the valuation models. The Seminary recognized a $77,877 loss from the termination of the interest rate swap upon the refinance of the $16,226,507 note payable.

In April 2020, the Seminary obtained a 1% interest bearing Paycheck Protection Program loan through the Small Business Administration (SBA) for $4,550,500. The Paycheck Protection Program is a loan that helps businesses keep their workforce employed during the Coronavirus crisis. The Seminary used the funds for qualifying expenses according to the SBA. In June 2021, SBA forgave the loan and the Seminary recorded a gain of extinguishment of debt of $4,550,500.

The Seminary paid interest for the years ending July 31, 2022 and 2021, of $607,223 and $559,446, respectively.

16. CHARITABLE GIFT ANNUITIES

The Seminary enters into split interest agreements with donors whereby, in exchange for the gift from the donor, the Seminary is obligated to provide an annuity to the donor or other designated beneficiaries during their lifetimes. The assets and liabilities associated with these annuities are accounted for as indicated in Note 2, Split-Interest Agreements.

17. PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for fiscal year 2021 have been restated to correct an error made in a prior year. For fiscal year 2021, "Tuition and fees" revenue was incorrectly stated, as it included tuition revenue associated with an academic program that was cancelled before year end. The effect of this restatement was to decrease accounts receivable and unrestricted net assets by $906,805, as of July 31, 2021.

18. ACCOUNTING FOR UNCERTAIN TAX POSITIONS

The Seminary is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation, except on net income derived from unrelated business activities. The Seminary is subject to unrelated business income tax on certain rental activities. The Seminary paid no taxes for unrelated business income tax in 2022 and 2021 as expenses exceeded revenues. The Seminary believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

19. ENERGY SAVINGS CONTRACT

In March 2021, the Seminary entered into an energy services contract with Ideal Impact (Company). The purpose of the contract is to upgrade equipment to optimize energy savings for electricity and gas usage. The Seminary shall pay the Company a total project fee of $1,987,591 only upon actual energy savings over the baseline year. The baseline year is the 12 months preceding March 2020. The Company will bill the Seminary 80% of actual energy savings over the baseline year, per quarter until the $1,987,591 is paid. The Seminary benefits from the 20% difference with lower utility bills. The Seminary is not liable to pay the Company if the actual current energy costs exceed the baseline year and no cost savings are recognized.

20. CONTINGENCY

The Seminary is a defendant in a pending litigation, asserting claims by a former student of the Seminary, related to an alleged sexual offense occurring on Seminary property. Presently, discovery responses are ongoing according to the timelines established by law and/or by agreement of the parties. At this stage, there is no reasonable prediction of the outcome of the case, or of any potential liability of the Seminary. The Seminary has tendered the lawsuit to its insurance carrier, who is providing the Seminary a defense subject to a reservation of rights.

21. SUBSEQUENT EVENTS

The Seminary has evaluated subsequent events through November 11, 2022, the date the financial statements were available to be issued.